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Introduction to Sales Management

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FOURTH EDITION

McGRAW-HILL BOOK COMPANY, INC.

INTRODUCTION TO SALES MANAGEMENT

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Preface

The fourth edition of the ***Introduction to Sales Management*** has been prepared in response to requests for a revision which would include such later case material as may have been gathered during the past five or six years. Case collections such as this necessarily and desirably include some older material which has been well tested for teaching effectiveness, but only by continuous contact with business operation and the continuous collection of case material can one be sure that issues in older cases are still vital. Furthermore, even though certain types of problems are recurring and perennial, that fact may be obscured by the changes in the environment in which decisions have to be made by executives.

The thirty-odd years during which sales management has been in the curriculum of the Harvard Graduate School of Business Administration have been eventful ones. During this period vast changes have taken place in the marketing field, in teaching methods, and in the availability of teaching materials for management problems. The embodiment of these advances together with the effort to cover the steadily broadening field has resulted in increasing the size and complexity of succeeding issues of problems books, although consideration of costs tends to reduce somewhat the number of problems which can be included in any collection. The plan of the fourth edition continues to be a simple one, consisting of brief textual statements of general principles to introduce the selected cases. Each of these case groups is supplemented by several shorter cases and questions intended to present in abbreviated form similar problems encountered in different industries and under varied circumstances. More than half the cases in the present volume have not been published earlier, while others which appeared in the third edition have been brought up to date. Many new brief case statements have been included and the other questions and queries have likewise been revised.

As in previous editions, the work of collecting any substantial amount of material on the basis of field contact requires the cooperation of many persons. My indebtedness to the group of young men who have worked with me over the years can never be repaid, but I shall always be grateful to them both for their help and their friendships. In connection with the newer material, I mention only a few of the names: E. R. Barlow, H. J. Benton, A. A. Stambaugh, Jr., J. W. Newman, W. W. Carson, J. E. Parks, and

R. T. Davis. Professors E. Ray Corey and Robert T. Davis have been generous in allowing me to use several cases collected for their own courses to fill in the gap for which our own efforts have failed to provide material. Professors W. B. England and F. E. Folts have also each furnished material for a welcome case in fields which impinge upon their own special fields of interest. For permission to use these cases, my thanks are due to the President and Fellows of Harvard College by whom a substantial portion of the cases have been copyrighted individually. They are reprinted here by special permission and may not be reproduced in whole or in part without the written consent of the President and Fellows of Harvard College.

The cost of preparing case material for teaching purposes is high and is increasing. Therefore, it is only through the support of research funds provided by friends of the Harvard Business School that any substantial collection of cases can be undertaken. The Associates of the Harvard Business School have been extremely helpful in supporting the work. To them and to the Dean, Stanley F. Teele, whose continuing interest in case research has been most encouraging, I express my sincere thanks.

The burden of typing and of detailed editing, of proofreading the manuscript and preparation of the Index, has fallen on the shoulders of my able and capable secretary, Miss Laura H. Slocomb May I hereby express my gratitude.

Harry R. Tosdal

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1. *Problems of Sales Management*

The wants of the consumers generally shape the structure of business enterprise and the operation of business concerns. The wants of the ultimate consumer for commodities and services determine the demand for industrial equipment for raw materials and for the whole range of articles in the intermediate and industrial markets. The main function of business, therefore, is the creation, procurement, or provision of desired goods or services so that they may be furnished to consumers in proper quantities at suitable times and at satisfactory prices. The responsibility of a business manager is to administer all the operations within an enterprise, including the activities of production and marketing, and such auxiliary functions as finance and transportation.

The portion of the field of business management which relates to the performance of the marketing functions is commonly termed sales management. Business usage still favors the term sales management, including in its broadest interpretation both foreign and domestic marketing operations. A few important firms have adopted the term marketing management to cover this field, and it is conceivable that in time this may become the preferred term. However, marketing management in its broadest concepts includes areas of raw material and agricultural marketing management which are not ordinarily included by these firms in their definition. For the present volume, therefore, the older term will be used in spite of the fact that certain efforts have also been made to narrow it to connote merely the management of sales personnel. Sales management, using advertising as one of its means of creating demand, includes the management of advertising, although in business organizations the development of advertising has caused many companies to accord it a coordinate position with other portions of the field of sales management. While the principles of sales management may be applied in retail operations, the scope of this book is limited to sales management in wholesale and manufacturing enterprises. Nevertheless, it cannot altogether ignore retail selling because fundamentally sound sales management must be consistent with the interest of the consumer who may purchase from retailers.

Sales management is not coextensive with marketing for several reasons. First, the viewpoint is that of the administrator in private enterprise whose responsibility is the disposition by sale of the goods manufactured or purchased by the enterprise. Again, while sales management is found occasion-

ally in retail stores, the common usage of the term generally does not imply its use in connection with retailing but rather favors the application to wholesalers and manufacturers of products and services. Lastly, in the study of marketing functions and institutions, administrative problems of raw material distribution are generally excluded in common usage of the term, although again, the functions performed may find a place here as well as in retailing.

Finally, it needs to be remembered that, within the sales management field, many types of administrative problems are encountered and many types of careers are to be found ranging from those of a staff type in which men undertake largely research, planning, and record keeping activities, to those which involve the management of men and the responsibility for successful sales operation. Technical knowledge and experience are required for both types of careers, but the operating career is essentially one in which the man takes responsibility for action while the research, planning, or record keeping career is essentially one in which men act in staff or advisory capacity. The work is important and fits the temperament and abilities of many men. The principal responsibilities rest, nevertheless, upon those who utilize such advice, facts, and records to get sales work done through human organization. No decisions are of importance unless appropriate action is taken to carry them into effect. The need for emphasis upon administrative decision and upon administrative action to execute decisions was never greater than now because the temptation to evade responsibility in this field by getting into staff types of work grows stronger as the number and importance of such tasks increase.

Functions of the Sales Department of an Enterprise

From an economic point of view, sales management involves productive effort in the creation of utilities; time and place utilities are created because the sales department provides for the storage of finished goods and their movement into the hands of the consumer. Likewise, in so far as the sales department cooperates with other departments in an effort to study market demands so that goods offered and the prices at which they are offered may be satisfactory to the market, it is concerned with what economists would call the creation of form utilities. The chief function of the sales department is that of effecting sales; or, in other words, bringing about the transfer of ownership of merchandise on terms which are satisfactory to seller as well as to buyer. Good sales management aims to bring about the performance of this and other functions at the lowest possible cost consistent with the continued profitableness of the business enterprise.

While the field of production management within a manufacturing plant has been fairly well established, no such definition can be furnished for sales management as it is practiced in sales departments. Sales departments vary

widely because among sales and general executives there is a lack of any common conception of the functions of such a department. In some firms the sales department is given control of advertising; in others not. Some firms give the sales executive control of credits; others accord him advisory control; still others no control whatsoever. In some firms the sales department takes what the production department chooses to turn out; in others the production department makes what the sales department orders. In many firms no definite and effective provision is made for cooperation between production and sales interests in order to produce wanted goods with maximum manufacturing efficiency. Sales organizations vary, likewise, with respect to their interest in the handling of orders and shipments of goods, both as to policy and as to method. The function of delivery seems to have been neglected as compared with the pure selling functions.

However, these differences in conception of the functions of the sales department on the part of executives do not explain the wide differences in sales departments. In the variations between sales departments, much is to be attributed to the necessity of adjusting organizations to the capacities, prejudices, and desires of individuals in positions of authority. Such adjustment is apparently much more easily effected where there is no clear-cut conception of the extent or limitations of the proper grouping of activities. Under such conditions, titles may be loosely given and, accordingly, will not indicate the same offices or same responsibilities in different organizations.

Profit the Basic Objective of Sales Management

Since the business enterprise is founded for profit and since no business enterprise may persist indefinitely without it, the objective of the sales department should contribute directly to the attainment of net profit. No apology need be offered for this as the objective either of the enterprise or of the sales department. In the majority of cases, net profit is entirely consistent with the social point of view. In a minority of cases, however, this is not true. There are problems to be solved where the long-run interest of the public and the immediate interests of the enterprise appear to be conflicting. Any type of human effort may be misdirected. Consequently, one must expect that occasionally marketing effort will be misdirected. The amount of misdirection in any activity will depend in part upon the standards of conduct approved by the social group in which these activities are carried on. That the standards in some fields of business are not so high as desirable may freely be admitted, but the extent of these abuses should not obscure the fundamental service which is performed.

Profit is derived from selling operations by maintaining satisfactory relationship between volume of sales, gross margins, and operating expenses. The sales or marketing departments must, therefore, strive to secure that volume of sales which yields the most satisfactory net profit considering both

the margin upon each unit of sales and the operating expense involved in procuring and maintaining sales. Every problem in the field of sales management has a direct relationship to one or more of these three fundamental measurements in the determination of net profit. A new sales method affects volume and possibly costs; a new pricing policy may affect volume and margins; a new product may affect volume, margins, and operating expense.

Characteristics of Modern Sales Management

Sales management is an art, not a science. No classified body of knowledge has been developed apart from other sciences which would enable one to speak logically of the science of sales management. But there is a scientific sales management, that is, a sales management in which the knowledge which science furnishes is utilized, both in principles and information taken from sciences and in a method of approach to problems which can be applied logically to the questions that confront sales executives.

The modern sales executive must perform his work with very imperfect equipment—imperfect, partly because of the incomplete development of other sciences, notably psychology; imperfect, largely because of the lack of scientific development along the lines of distribution. It seems strange to the observer that marketing, when understood as including the creation of time and place utility, should have suffered such neglect when, from the viewpoint of public interest, such distribution is always important, and since distribution frequently takes up a larger portion of public income than production of form utility. In other words, for many commodities the costs of distribution are greater than the costs of manufacture, including the cost of raw material. Although production costs have been cut down materially in the course of the last two or three centuries, no sober examination of present-day facts would lead to any conclusion other than that of the need of applying every means to the reduction of distribution costs.

The first step toward this end is logically the collection and classification of facts; the second, analysis of data and the drawing of conclusions; the last, the application of the principles derived. In sales management, the collection of facts has just begun. The conclusions which are drawn are necessarily tentative and are to be used only as guides for action, pending more definite solutions to come when the basis of fact is broader. The development of scientific sales management requires concentrated thought and reasonable procedure on the part of every sales executive and every student of distribution problems.

To develop the habit of passing judgment and taking action upon the basis of tangible and intangible facts in accordance with correct principles is the goal of scientific business training. It is our conviction that this training—this habit of making decisions upon facts and evidence rather than upon guesswork—can best be acquired, through considering and discussing prob-

lems of the type which actually confront the businessman in the course of his activities. It is evident that there are a great many possible combinations of circumstances; furthermore, it is not possible through the description of circumstances to convey all the variations in the personal factor.

Modern sales management, like modern production management, emphasizes the importance of planning upon the basis of facts before undertaking execution of tasks. By planning, better methods are determined, proper goals are set up, and results may be compared with plans to determine the quality of result as a guide to future planning and action. Modern sales management, therefore, shows the difference from older sales management at every point in its emphasis upon planning and control, but particularly in its emphasis upon study of the market, detailed sales planning, and control methods.

Sales Management in the Business Organization

Sales management now occupies a definite place in our business structure. That place is, broadly speaking, a recent development due to the recognition of the essential need for functional specialization in performance of marketing functions and to the growing competition both within and between industries. When the producing organization was unable to furnish even the elementary goods which the buying public was willing to purchase and pay for, the performance of the selling function could be handled by a small organization, as the work to be done was relatively small in amount and simple in type. With the growth of industry, the increase in the number of commodities, larger incomes, rising standards of living, and multiplication of the number of buyers, the task of getting wanted goods to those who desired them became increasingly complicated. Concurrently numerous marketing developments have taken place—in the replacement of the itinerant merchants and peddlers by the traveling salesmen, the growth of new classes of middlemen, the commencement and spread of advertising, and, more recently, the full recognition of merchandising as the fundamental basis for sales operations.

Every producing enterprise must provide for the marketing of its product. That provision may sometimes be made by shifting part or all of the marketing function to middlemen or by contract to larger consumers. The functions are performed in any case, but the responsibility of the specific firm will vary with the desires of the executives, the need of the market for the product, and other factors. The complete shifting of marketing responsibilities and functions is common in very few trades and is becoming increasingly unusual.

More frequently a part of the marketing function is transferred through sale to the intermediate market, through wholesalers or direct to retailers, but in either situation more or less work needs to be done in effecting sales

contacts, that work requiring the provision of a person or persons to take responsibility for its performance. A firm manufacturing consumer goods and selling its output to two or three chain store distributors may find that its selling work takes only a part of the time of an executive; it may spend relatively much more time on the task of designing and testing products to be introduced through chain outlets. On the other hand, another manufacturer of similar products may employ a large salesforce to visit retailers widely scattered throughout the nation.

Wholesale companies perform the sales management function whether the title of sales manager is given to any specific individual or not. They must perform the selling function in order to exist; they must accomplish other marketing functions more or less effectively in order that the selling function be performed profitably. Cooperative wholesale marketing organizations of farmers must provide for the sale of their products and effect their physical distribution.

One is safe in making the statement that sales management has within the past half century come to occupy a definite place in the business structure, and that its relative importance has increased steadily until today certain functions with which the sales manager is concerned are considered fundamental to the existence of the enterprise.

The importance of sales management may be measured broadly on several different bases. From the view of the cost to the consumer, the total costs of marketing amount to a substantial portion of the entire national income. Any estimate of the exact cost is subject to wide margins of error, but an estimate which takes the retail margin of 25% of total retail sales, to which may be added 10% of sales by wholesalers and 5% of sales by manufacturers, yields a figure large enough to impress even the most skeptical with the importance of careful study of the management problems of marketing. That these figures are conservative is shown by various studies of margin, one of the most recent of which is to be found in *Distribution's Place in the American Economy Since 1869*.[1] While margins of some retailers go below 25%, many department, mail-order, and other types of stores have margins in excess of 30%; and of the list of 32 types of outlet, only 7 showed margins less than 25%. Similarly the study of wholesale margins by kinds of business shows that in 1947 only one of 19 types of wholesalers had an average margin less than 10%. Since marketing by manufacturers is included in wholesale figures, the estimates of sales costs are to be considered conservative.

However, only a part of these costs is attributable to the areas with which this volume is concerned. Employment figures give us perhaps a somewhat more accurate picture. Persons engaged in production of commodities more

[1] Harold Barger, *Distribution's Place in the American Economy Since 1869* (Princeton, Princeton University Press, 1955), p. 81.

than doubled between 1870 and 1950, but the employment for retail and wholesale enterprises increased 12-fold from 7,800 to 9,600,000. The employment in wholesale trade, including marketing by manufacturers, rose from 1,750,000 in 1929 to 2,620,000 in 1948.[2] One is on even more uncertain ground in the effort to find those who were engaged directly or indirectly in selling activities. An appendix in the National Bureau of Economic Research study estimates that those engaged in selling exceeded 1,000,000 in 1930.[3] If the rate of growth is applied in proportion to the total engaged in distribution, the number would exceed in 1950 1,500,000. In another study, an estimate was made for 1950 that 1,350,000 were so engaged.[4]

Advertising expense alone has been estimated recently at about $9 billion per year. Therefore, from whatever angle one approaches the problem of determining the cost of marketing by manufacturers and wholesalers, a strikingly large proportion of national income is involved. The sales management of wholesale and manufacturing concerns is apparently responsible for one-quarter to one half of total marketing expense, a sum which is certainly sufficient to warrant serious study by students of the social aspects as well as by managers and owners of business enterprise.

It must be repeated, however, that the estimates of the amount of employment and costs for which sales management is responsible are useful primarily as a basis of impression as to social importance. No government census figures reveal completely the number of persons employed directly in the performance of the functions for which sales management is responsible. Manufacturers' sales departments and other functional departments engaged in marketing are not fully segregated for purposes of census enumeration. However, such figures, while highly desirable for other purposes, should not be needed to convince the student of the social and economic importance of sales management.

Problems of Sales Management

The incomplete development of business science is clearly demonstrated by a study of sales management. The absence of generally accepted principles is shown by the number and variety of problems which present themselves to sales executives and by the utter lack of anything approaching a scientific standard of practice. Because there is such a broad field in which complete facts cannot be secured, there is no single correct solution for many of the problems in sales management. A successful solution in one enterprise may be unsuccessful in another.

[2] *Ibid.*, pp. 4, 14.

[3] *Ibid.*, p. 30.

[4] Tosdal, H. R., and Carson, W. W., *Salesmen's Compensation*, 2 vols (Boston, Harvard Business School, Division of Research), 1953.

The solution of these problems involves two types of mental effort: (1) the suggestion of plans or alternatives, a matter requiring both imagination and judgment, and (2) the choice between the alternatives so suggested, which requires judgment. Rule-of-thumb decisions are becoming dangerous in modern business. Much is to be gained if the student of sales management acquires the habit of weighing alternatives before deciding, but more is to be gained if, in addition to judgment, he possesses and develops imagination.

Problems in sales management vary from broad problems to detailed ones, from unusual nonrecurring problems to those which are perennial, those which constantly harass the sales executive. For purposes of study, however, these problems may be grouped into a few broad divisions, although any grouping is bound to encounter objections from some point of view. At the best, such classification is artificial and serves only as a convenience in organizing work.

The study of sales management seems to have arrived at a point where, in the arrangement of problems, one is justified in emphasizing the need for adjusting organizations to the work to be done instead of giving emphasis to the subject of organization at the outset of the study of the field. Furthermore, since market research has come to be accepted as a necessary tool for sales departments, and since the use of that tool in sales management can best be studied in conjunction with the specific types of problems and decisions for which it is employed, it has seemed advisable to omit a special and technical section devoted to market research and to distribute most of the problems involving market research through other sections. This is not to minimize the basic importance of getting facts about the market and its behavior; it is rather to take for granted the necessity of providing and understanding pertinent facts and to emphasize the need for practical utilization of the research tools in every aspect of sales management.

Any orderly arrangement of sales management materials is necessarily subject to the criticism that it is artificial and that from one point of view or another it may be illogical. The following outline is based mainly upon the order in which problems occur in the development of a new enterprise or in the introduction of a new product, but the various types of problems need not, and often do not, occur in any such order as outlined below. Even in a new business, financial circumstances, preferences, and prejudices of dominant personalities may establish conditions which must be accepted as controlling.

The major groups of problems presented in this volume are for convenience grouped as follows:

1. What to sell; merchandising policy and merchandising organizations.
2. To whom shall products be sold? Market channels; market research and analysis.
3. At what prices and terms shall products be sold? Prices and credit terms.

4. Market and sales planning. The total sales task, its determination and breakdown. Sales estimates, territories, quotas.
5. How shall the product be sold? Sales methods; sales promotion; sales campaigns.
6. By whom is the work to be done? Sales organization; management of salesforce.
7. How shall goods sold be delivered to fit buyers' desires for service and timing?
8. Planning and control of sales operations.

These types of problems are met under an almost infinite variety of conditions. A small company starting in manufacturing with a few thousand dollars' capital encounters problems which are fundamentally similar to those of a long-established company whose products are no longer attracting the public and which must consider the addition of new products or the redesigning of old ones. A company trying to sell a few thousand units of a commodity in a market section is confronted with problems which are much like those of the larger company whose production is expressed in millions of units. Problems essentially similar are, therefore, encountered in widely varying sizes of companies, just as they are encountered in widely varying types of products.

The problems in the field of sales management vary also according to the amount of facts which the executive has as a basis for making his decisions. Some of the problems concern research—determining the facts, planning and using those facts to decide what is to be done. There are problems of policy, that is, of determining in advance the course of action to be taken under certain conditions; for instance, an executive may decide beforehand that no returns by customers are to be allowed without previous permission of the seller. Lastly, the problems of execution, of the handling of personnel, of control demand most of the attention of average executives, sometimes to the harmful exclusion of the problems of policy, research, and planning.

In the consideration of problems of sales management, special thought should be given to the importance of the human factor. A form of organization which may be illogical may operate with satisfactory results in spite of its deficiencies because of the force and ability of one or more persons. Fundamentally also the success or failure of the sales department lies largely in the success or failure of its relation with buyers and with ultimate consumers. The failure to provide wanted goods for ultimate buyers makes it impossible for satisfactory contacts to be maintained indefinitely with any intermediate group. A retailer cannot afford to buy what consumers do not want to buy; a manufacturer cannot afford to purchase machinery that does not turn out satisfactory products which consumers want.

In studying the problems which follow, therefore, one must remember that decisions on action may be changed by personal factors slightly or in more

important degree, depending upon the situation. The justification for studying them under such conditions is twofold: (1) Many problems depend upon market conditions over which a specific personality has no control; (2) the more logical the decision, other things being equal, the better the chance that it will be successful when administered by personalities commonly available for such work.

The Solution of Sales Management Problems

Careful observation and investigation will verify the assumption that sales management problems of the present time confronting the sales executive have not basically changed in type. The war and the extended buyers' market brought to the forefront problems of governmental control of production and distribution; in some industries, problems of supply and allotment temporarily supplanted selling problems. However, one need not go into detail to defend the statement that the problems which sales managers are likely to encounter in the years following 1950 will resemble the problems encountered in the years 1930 to 1941 more closely than those of 1942 to 1947. Experience in the previous buyers' market prior to 1941 is more pertinent than war experience or immediate postwar experience; the problems and the solutions of problems in the earlier buyers' market may be more illuminating to the executive who is to operate in the coming years than those of the sellers' market from 1942 to 1947, or 1950 to 1951.

Problems of adjustment to higher price levels have been encountered in the 1920's just as on a somewhat smaller scale the problems of higher taxes and greater governmental controls. But the basic problems in merchandising, channels, pricing, sales planning, and programs, the management and control of the sales organization and of sales operations, persist. The background against which decisions on such problems must be made is continually changing. Solutions of sales management problems which were satisfactory in the 1920's and 1930's were not appropriate in the 1940's and may not be appropriate today, although in many cases independent thinking arrives at conclusions that are very similar in general nature to those of an earlier day. Likewise, the solutions of today may not be applicable tomorrow. Some fundamental principles remain or change much more slowly, but the methods of applying these principles to specific situations may undergo rapid shifts, to the great embarrassment of those executives and those firms who confuse principle with method.

The businessman uses facts and opinions, imagination and judgment, to solve his problems, and seasons his consideration with experience. It is not easy for him to keep in touch with fact and opinion. There are three sources which he ordinarily utilizes: (1) his own experiences and that of his enterprise, (2) the experiences of other men and of other companies, (3) facts and opinions collected by various agencies—scientific, government, editorial,

which are usually embodied in printed material. To put it more briefly, the businessman gets information to help him in his business through experience, through observation, through correspondence and conversation with others, and through reading.

The experience which a man has been able to acquire is of more or less value depending upon the length and the breadth of that experience, and upon his ability to derive guiding principles therefrom. As business becomes more complex, as the number of types of work to be done increases, the difficulty of getting personal experience which is coextensive with the need of more complex businesses becomes almost insuperable. To secure adequate personal experience in the many jobs, even in medium-size companies, would require a lifetime. Yet personal experience is by no means to be minimized. The most important type is that which has to do with human contacts. Ability and experience in dealing with men in various business relationships cannot be replaced by any amount of reading or questioning of other men.

To supplement the limitations of one's own experience, one should secure that of others, though experiences of others are likewise subject to considerable limitation. In the first place, those experiences, while broadening, may not be related directly or indirectly in pertinent details to one's needs. Furthermore, in personal contact with others, only a portion of a person's action or reasoning may be described. Fundamental factors may have been more important in a certain decision than the executive believed they were. In the second place, personal contacts are limited by the amount of time which an executive has to devote to such contacts, by the number of opportunities for such contacts with others, and by the attitudes of competitors in particular fields. In spite of such limitations, contacts resulting in sharing experience are of very great value. The willingness of American businessmen to share experiences is noteworthy. Trade associations, of which there are thousands in the United States, furnish great opportunity for the interchange of mutually helpful information, while various types of management associations, engineering associations, and similar organizations bring about an interchange between members of different trades or industries.

Printed sources of materials also have their merits and their limitations. In increasing measure, the executive who does not read, or who has not learned to read, critically and quickly is at a distinct disadvantage in keeping up with the rapid changes characterizing all business activities, but particularly characteristic of the marketing field. The literature devoted to sales management is, unfortunately, meager; much of it is incomplete. Unless facility of reading quickly has been acquired, much time may be consumed with small return; unless a critical sense has been developed, some of the literature may be positively misleading. One learns to read quickly and critically only by practice.

In many aspects of marketing, the quality of the literature has steadily

improved and can no longer be ignored by the progressive executive. Types of information are available for executive guidance in government publications, publications of academic institutions and of trade associations, and numerous books and periodicals which the businessman who wants to keep up to date, who wants to broaden his view and understanding of the marketing field, will be sure to use.

Plan of This Volume

The purpose of this volume of problems is primarily to develop an approach and a technique for the study of sales management so that a student, when he arrives at posts of responsibility, may be able to analyze and think through the problems which confront him. The purpose is not that of presenting a picture of facts of the present marketing situation. While many of them are included in the background of specific problems, these facts change. The approach to problems and the broad underlying principles do not change. It is much more important for the student to learn to deal with problems, to think straight, and to exercise sound judgment, than it is to try to learn series of facts which are more or less out of date before they are printed.

In the development of this volume each chapter contains several types of material:

1. Introductory statements, outlining the scope of the subject and the types of problems which sales executives encounter in practice.
2. Problems secured from going business enterprises. These are actual problems which have confronted sales executives.
3. Brief problems with less factual background material, but presenting situations and industries varying from those in the more detailed cases.
4. Questions involving both broader sales management subjects and matters of business or social policy in relation to sales management.
5. References for reading.

In the study of these problems, the factors for and against a proposed decision need to be carefully weighed. The student, on the basis of his study of a problem, should direct his efforts toward:

1. Acquiring facility in stating problems clearly and concisely.
2. Defining the issue or issues clearly.
3. Proposing tentative alternative solutions which seem appropriate.
4. Applying pertinent facts and opinions to the selection of proper conclusions.
5. Stating definite conclusions and supporting them convincingly.

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2. *Product Planning, Product Policy, Product Research*

It is a striking development of the postwar period that even before the backlog of demand for goods was being appraised, forward-looking executives began thinking about the need for product development as a requisite for maintaining the prosperity of the firm and as a social necessity if high standards of living were to be maintained and raised.

Business executives realize more clearly today than ever before that they must strive definitely toward the production and distribution of those goods and services which fit consumer needs. While the shortage of many products during and after the war temporarily obscured the fundamental importance of consumer and buyer wants, many executives in retail, wholesale, and manufacturing enterprises are now being forcibly reminded of the essential soundness of attitudes toward the shaping of products that were becoming characteristic in the prewar period. The attention which had been given to the finding of new products, to improvements in design, color, and other features to make wares more attractive and salable was more or less a direct attempt to bring what business offered into line with the wants of the public. To determine consumer wants in detail, what products are to be sold, how products are to be reshaped to fit market needs, how products are to be identified and packaged was, and is, part of the responsibility of the modern business manager. He must decide not only what to make or sell but when to cease making or selling a product or service. He must see that neither too little nor too much is offered.

Decisions concerning products to be offered to the public have, in the past, been made with relatively little knowledge of the consumer, so that goods offered usually represented little more than intelligent guesses, based upon experience as to what the public really desired. When there was a scarcity of goods to satisfy even elementary wants, consumers were compelled to take what they could get. They could not insist effectively upon a change of even minor importance, although such change might have made the offered product much more acceptable. Such a situation no longer prevails. In many lines the consumer once more is offered a wider choice. Again, he is rejecting those offers which do not please him. If enough consumers in a market

prove like-minded, the manufacturer who has continued to offer unacceptable products which sold only because of a shortage of merchandise has found himself confronted with pressure to change his product or his price in such a way as to make it acceptable or risk failure.

On the other hand, the manufacturer whose products are purchased in satisfactory quantities at profitable prices must not assume that he has solved the problem of consumer demand. Sudden shifts of demand to competitors have too often occurred to warrant an attitude of complaisancy. The sales executive will realize that consumers, in buying products, may purchase those which do not fully satisfy their needs. It is common knowledge that compromises and shifts will be resorted to by most buyers in the adjustment of their purchases to income limitations, but many producers and middlemen do not realize so clearly that purchasers also make many compromises in view of the lack of exact knowledge by manufacturers as to what to make or sell and, in view of lack of knowledge on the part of the consumer, as to what he really wants.

The increasing use of research techniques in the effort to get answers to the many merchandising problems is very noticeable. Research surveys, the informal or formal collection of facts, the use of consultants for the development of new products, the setting up of product development organizations, the large and growing expenditures for product research, all point toward two things, namely, the importance of the problems involved and the increased tendency to secure facts and answers because it has become too expensive to depend on hunch and unsupported opinion.

A. PRODUCT POLICY; ADDITION AND ELIMINATION OF PRODUCTS

The basic decision to be made by the executives of a new enterprise concerns what goods to buy or to manufacture. Usually an enterprise does not come into existence unless there is a more or less definite idea as to the class of commodities to be produced or marketed. When a chemical manufacturing enterprise has once been started, its plant, equipment, and organization limit its range of choice as to both type and quantity of product. General-purpose machines and equipment permit a relatively wide choice to certain groups of manufacturers, but even these choices are narrow in comparison with the entire range of commercial commodities. While a paper mill may make many different types of paper on Foudrinier machines, it is limited, in the first place, to the manufacture of paper and, in the second place, to paper of definite width. A wholesale enterprise is likely to find its limitation only partially in its physical equipment and mainly in the knowledge and skill of its organization in soliciting business within markets, and in the skill

with which it purchases and sells goods which meet the needs of buyers. However, within the limitations imposed upon manufacturing and wholesale concerns, many choices have to be made; when equipment and organizations are no longer suitable for making and selling effectively enough of the goods that consumers want, both organization and equipment may have to be scrapped.[1]

The merchandising problem is, therefore, a continuing one. Tire companies have been confronted with continual changes. Many years ago the problem was whether or not to produce balloon tires. Ever since the war, the question confronting the tire companies was whether or not they would make tires requiring even lower pressures than those which had been characteristic of the prewar period. An automobile company had to decide each year before the war whether to continue older models or change internal or external features of the car which it wished to sell. Once the general type of car was decided upon, changes had to be made annually, at least in some details, often for promotional purposes. In the postwar period, some changes were made by all companies, but the observer will have noticed the substantial differences of opinion as to the nature, direction, and extent of the changes, both in the immediate and in the later postwar years.

Quality Policy. Shall a company specialize on high-quality goods to be sold at correspondingly high prices or on goods of somewhat lower quality to sell at lower prices? Shall a company selling high-quality goods add a lower-price line? These and other questions need to be answered with due regard for the relation between the quality of the product and its users' needs. Depression periods with declining prices bring pressure to bear upon manufacturing and trading firms to lower quality to conform to changes in price structures. Distinctions, all too frequently ignored, have been needed between the bare essentials of quality and expensive nonessentials sometimes used to create illusions of quality. The problems of quality policy in industrial companies differ somewhat from those involved in marketing consumer goods, primarily because of the differences in the motives and competence of buyers for consumer and industrial markets.

The shortage of civilian goods during the war and immediately thereafter, based upon material and labor diversification and shortages, led some producers to change quality policy because it was easier to manufacture lower qualities which could be sold at substantial profits. However, as a buyers' market approached in one industry after another, retailers, dealers, and manufacturers began to encounter rapidly changing and sometimes almost catastrophic refusals to buy on the part of the consumer. Consumer insistence

[1] Cf. H. R. Tosdal, "The Study of Consumer Demand in Relation to Capitalistic Society," in *Business and Modern Society*, edited by M. P. McNair and H. T. Lewis (Cambridge, Mass., Harvard University Press, 1938), pp. 314, 315.

upon qualities superior to those offered in wartime products became characteristic of merchandising shifts during the past few years.

Dropping Products from a Line; Simplification; Standardization. The American businessman has displayed a peculiar weakness in his tendency to sidestep or to ignore the problems of dropping products from his line; disastrous results in the building up of inventories, which led to losses and to unwise direction of productive and sales efforts, have resulted. Although theoretically the manufacturer realized that elimination would tie up less capital, permit more economical manufacture, and bring other advantages in reduced costs of warehousing and selling, he did not carry his reasoning into marketing practice. Sometimes he adopted programs of partial elimination by standardization of parts, although he retained obsolete products. In the spring of 1957 there is considerable discussion of the need for major changes in the automobile field as a means of maintaining the high volume of sales which characterized previous years.

In the production field, the movement toward standardization and elimination of excess variety proceeded rapidly as long as demand for products was at a high level and no untoward difficulties were encountered in selling standardized products. While, because of increased emphasis upon style, there has been an apparent loss of the advantages of standardization and simplification, the pressure upon manufacturers to keep costs within limits has led to many devices which permit flexibility of production and variety of product while securing a large proportion of the advantages of standardization.

Simplification in its broadest sense, as the philosophy of the elimination of the unessential, applies particularly to product policy as a part of marketing. If more products are made than are necessary to satisfy substantial demands of buyers, some elimination is in order. The advocate of simplification believes that buyers, middlemen, and producers are better served by concentrating efforts upon a few products because it is easier to do a few things well. The advocate of diversification, on the other hand, believes that a wider line of products may bring about lower costs and conform more closely to the needs of the market than will a narrow line.

The problems of diversification have become more general with the growth in the size of business enterprises. Consideration of full utilization of marketing personnel and occasionally desirability of full lines in order to pursue effective dealer policies have both been argued in favor of the policy. The volume requirements of large-scale production and the certain advantages to be secured in the physical distribution and storage of products have also affected decisions on diversification. For other firms, technological advances and their frequent threat to established products and industries make the search for new products constantly more urgent, whether the purpose be diversification or replacement.

At just what point the balance of advantage for a specific company is to be found as between diversification to bring a line more in accord with consumer wants, and simplification or standardization as a basis upon which both to satisfy consumer wants and to secure also lower production and distribution costs, is again a problem to which the sales manager will find no clear solution. It soon becomes clear that any careful study of merchandising problems leads to the conclusion that the inherent inconsistency of buyers' wants in some fields compels the business executive to exercise judgments in making decisions which, in some circumstances, may make or break an enterprise. The soundness of intelligent effort to reduce the chances of error cannot be gainsaid.

1. PATENTED PRODUCTS COMPANY (A)

Background. The Patented Products Company, located in Utica, New York, was founded in 1912 to manufacture tools. Twelve years later Division A was formed in the company to exploit commercially a newly developed lock washer which was soon to become generally accepted in industry.

After its initial success with the lock washer, Division A started manufacturing various types of patented fastenings and fastening devices, gradually becoming a leader in the field.

The major portion of these fastenings was consumed by mass production industries with the automotive industry leading in importance. The main appeal of these fastenings was that they reduced assembly operations and, therefore, could be shown to accrue savings in labor as well as capital costs to the user.

The number of fastenings manufactured by the company increased steadily, one reason being that the company executives took pride in the policy which made it seek special fastening problems which could not be solved by use of a standard fastening. A special fastening was therefore frequently designed to meet individual customers' assembly needs. As a policy, the company was constantly looking for new and novel fastening items for manufacture in Division A.

In the 1930's Division A developed two patented standard assembly items: one was a thread cutting screw, which eliminated the need of tapping holes in assembly work, and the second was a preassembled lock washer and screw which eliminated the hand operation of putting washers on screws.

The products of Division A were separated in the minds of executives into two categories: screw products and stamped products. The screw products, consisting primarily of screw-washer assemblies, and the thread cutting screws were manufactured in all sizes and shapes. The stamped products were manufactured on punch presses and consisted principally of the various novel fastenings and the lock washers. By 1951, the thread cutting screws and the

lock washers were widely recognized and accepted as assembly items. The size of the market for the screw-washer assembly and the other products amounted to several billion pieces annually. The profitability of the enterprise, however, depended on developing a considerable portion of this market since the products sold for only a few dollars per thousand pieces and fixed overhead was the principal cost item.

In 1951, the company was using a considerable amount of advertising, primarily of an institutional nature, using in addition to trade journals such media as *Business Week* and the *Saturday Evening Post.*

Since the fastening business was a highly competitive one, great emphasis was given to new product development as executives believed that only by continually developing new and better products could the company remain the leader in the field. In the early part of 1951, the company was introducing a new product, a preassembled lock washer and nut.

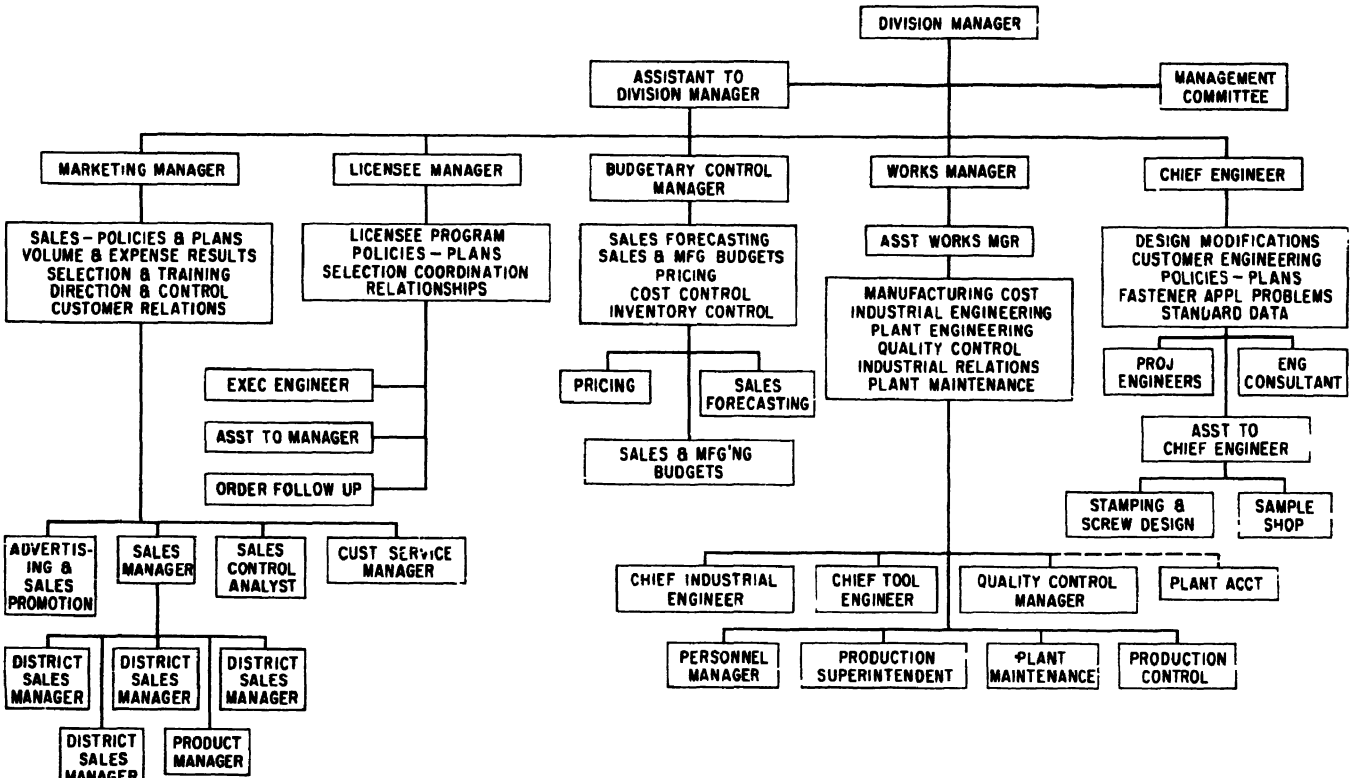
The organization of Division A (Exhibit 1) was headed by a division manager. He was also a vice president of the company and reported directly to the president. Reporting to the division manager was the marketing manager who was in charge of all sales activities of the fastener division, the licensee manager who was responsible for the licensing program of the company, the budgetary control manager, the works manager, and the chief engineer.

The products of Division A were distributed directly to major users by 20 company salesmen reporting to 4 district managers. Three of these districts were located in the northeastern quarter of the United States. The fourth district was responsible for the remaining three-quarters of the country which was relatively less important so far as company sales were concerned. In this latter district, with the exception of California, the division distributed through commission agents. In 1951 five of these remained. In order to handle small volume accounts economically, the company also sold to 125 independent distributors. These sales fell under the jurisdiction of one of the district managers.

In the spring of 1951, several problems faced the manager of Division A. Since his division was heavily dependent on the automotive and appliance industries, severe cutbacks in their production were expected to affect division sales seriously. In the current defense effort these cutbacks appeared likely and therefore other business, particularly defense orders, was sought to replace the expected decline in effective civilian demand.

The new product development program of the company was of special interest to the Division A manager since it was his division which required a continual flow of new products in order not to lose its position in the industry. Furthermore, the need for a determination of the proper place of distributors in Division A's sales program prompted reexamination of the

Exhibit 1. PATENTED PRODUCTS COMPANY. Organization Plan, Division A. December, 1950



whole distributor program.[1] A problem also had arisen concerning the nut-washer assembly which was soon to be ready for licensing.[2]

New Product Development. Executives of the Patented Products Company were of the opinion that the company's future depended largely upon new product development inasmuch as the majority of its products were patented ideas, replacements for which had to be found before patents expired or the product became obsolete. Executives differentiated between new product development and the development of new applications or refinements in the company's existing product line, the responsibility for the latter having been delegated to the engineering departments of the company's two operating divisions. On August 8, 1950, in order officially to recognize the difference between new product development and engineering, announcement of the creation of the New Product Development Department had been made. The manager of the department, although reporting directly to the president, was expected to maintain close liaison with the respective division managers and the chief engineers, works managers, and sales managers. In the organization chart for the new product development department (Exhibit 2) the major functions of creative design, project engineering, market research, pilot plant operations, and sales development, reported directly to the manager of new product development.

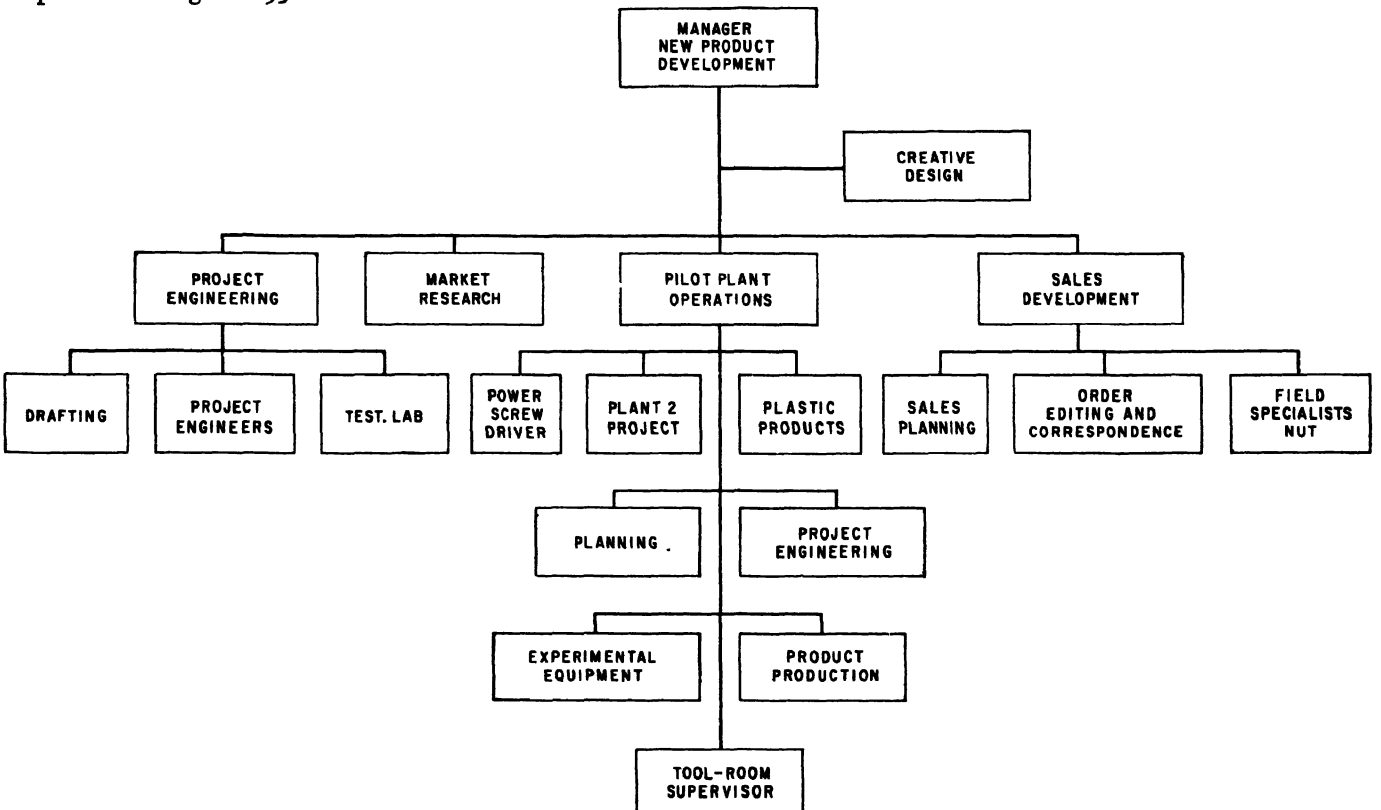
Creative design, under the direction of one of the company's experienced engineers, undertook creative engineering in connection with the modification and development of new product ideas. For a time, however, he continued to be available for special engineering problems and contacts in connection with the Detroit automotive trade.

Project engineering was under the direct supervision of the new product development manager who had an assistant to coordinate the administrative details in the project engineering section. Both the drafting unit and the test laboratory serviced the requirements of the new product development department, although the supervisor of the test laboratory also cooperated with the chief engineer of the fastener division. It was the policy of the company that, while project engineers were to be a permanent part of the new product development department, an "exchange privilege" was to exist with the engineering departments of both the New Product Development Department and the fastener divisions so that personnel skills and abilities could be utilized to the maximum.

The manager of the market research section was to report to the manager of the new product development department and was answerable for product studies, industry analyses, competitive studies, market opportunity studies, and special market research assignments in connection with outside companies.

[1] See Patented Products Company (B) case, p. 198.
[2] See Patented Products Company (C) case, p. 258.

Exhibit 2. PATENTED PRODUCTS COMPANY. Plan of Organization, Product Development Department. August, 1950



The manager of pilot plant operations, in charge of the production aspects of the pilot plant operations, had supervision over a manager of nut production, a manager of nut and nut-tool engineering, and the toolroom supervisor as well as the personnel responsible for nut planning and experimental screw and nut equipment.

The manager of the power screw driver section of the pilot plant operations reported to the manager of new product development on the engineering and sales service aspects of the power screw driver. The manufacturing was eventually to be transferred to the New Product Development Department except for final assembling. The manager of the plastics products section also reported to this manager on the engineering and production aspects of plastic items. The manager of the sales development section, handling planning and sales development under the new product development function, cooperated closely with the sales, advertising, and promotional personnel in the fastener division and the New Product Development Department in the preparation of sales plans and programs on products that subsequently were to be marketed by the company's line organizations. Reporting to him was the man charged with preparing sales material and sales plans and a second person who was to handle order editing and correspondence in connection with new product sales. All sales development activities for new products, including the power screw driver and plastics, were to be cleared through the manager of the sales development department; he was to coordinate all field trips and other sales plans with the marketing manager of Division A and the sales manager of the new products department. The field men, who were product specialists charged with introducing a new product to the market, reported to the manager of the sales development section, who coordinated their activities with the fastener division's line sales organization. The company was contemplating transferring the responsibility for the sale of products coming from the nut development program as well as the power screw driver to Division A's marketing manager after the product had been introduced on a preliminary basis.

The size of the organization under the manager of the new product development department at any one time depended on the extent of development activity. From a company standpoint all pilot plant operations were under his direction and authority until such time as top management agreed that development, production, and market sales testing had reached a point where a specific new product could be transferred to the line organization. In actual practice such transfers would be gradual and would be effected through close cooperation and coordination of the divisional vice presidents and the manager of new product development. The latter was to see that production, engineering, and sales personnel assigned to him was properly trained so that when new products were ready for transfer to company divisions they would be capable of carrying on full-scale operation. He was

also supposed to see that preliminary sales efforts on new products were planned in close cooperation with divisional sales executives. In conference with the divisional managers and respective chief engineers, works managers, sales and marketing managers, agreement was reached as to positions in the line organization available to personnel to be transferred. Areas of disagreement were to be resolved by the president and the senior vice presidents.

It was the immediate responsibility of the heads of the various operating departments in the fastener division and the new product development department and the final responsibility of the respective divisional vice presidents to see that the new product development function, while operating the pilot plant on the nut program, received adequate assistance with respect to necessary services and facilities so that new product progress was not impeded. These included provision for screw blanks and other material, all shipping, heat treating and plating, maintenance, personnel procurement, industrial tool and product engineering. Similarly, the supervisors of the tool and die department maintained full cooperation with the new product development program.

Output from production facilities developed as part of the pilot plant operations was regulated by the manager of the new product development department and was not considered part of the company's productive capacity unless this could be done without detriment to the experimental and developmental activity. Similarly, once equipment, facilities, and personnel were assigned to the new product development function, their utilization became the responsibility of the new product development manager.

In the spring of 1951 there were three projects in the pilot plant stage in the new product development department. First was the power screw driver, a high-speed, stationary, automatically fed screw driver designed for assembly line use. The over-all operation of the power screw driver business was the responsibility of Mr. White. Because of the sales tie-in with Division A and the manufacturing tie-in with the new products division, Mr. White was required to consult with division managers on many policy matters. However, Mr. White, reporting directly to the manager of the new product development, was accountable for such phases of the business as engineering, production scheduling, final assembly, and testing. All matters pertaining to application of power screw drivers to customers' needs, modification of standard units for special use, toolmaking and special fixtures for customer needs, and introduction of new products were submitted to him for decision. He exercised quality control over parts manufactured or purchased by the new products division and was expected to develop and train men required to assist Division A in field selling and servicing these machines. It was expected that the new product division would eventually take over the manufacture or purchase of all parts and components of the power screw driver and make such subassemblies as could be put together prior to the final setup

of the machine to the customer order. These parts and subassemblies were built up for stock on production orders prepared by Mr. White on the basis of estimated sales approved by Division A manager or the marketing manager. At some future date the engineering, sales, and other responsibilities in connection with the power screw driver would be absorbed by Division A and Mr. White or a suitably trained alternate would, as a product manager, report directly to its marketing manager. The power screw driver, an assembly machine, was in an industry which differed considerably from those of the company's other products. While currently and in the near future the manufacturing and direct sales of units were to be accomplished by personnel in the line divisions, full development of existing markets for this new line depended on additional products. These were under development currently; and the initial production engineering, pilot manufacturing, and sales promotion were to be handled by Mr. White and his group who in turn would again instruct and train Division A sales personnel.

Coordination with Division A's sales department of all field selling in customers' plants by Mr. White and his group became a task of the manager of the sales development section who with his assistants also assumed such duties as the preparation and distribution of sales literature, editing of incoming orders, and establishment of delivery schedules. Proper coordination of these activities was necessary since past experience indicated that successful promotion of new products by Division A salesmen depended not only upon the careful and complete preparation of sales and advertising material but on the additional help supplied by product specialists visiting customers' plants with salesmen.

The company owned rights by patent assignment to make and sell one-piece plastic rivets and other items. One commercially successful form of the plastic rivet was a plastic shelf support for refrigerators. Several forms of the shelf support were currently being sold to refrigerator companies. While the molds were owned by the company, the parts were manufactured by molders. The company owned one experimental molding machine and had ordered two production machines which were scheduled to arrive during the first quarter of 1951. Mr. Sklenar, who had worked closely with the fastener salesmen on customers' sales, application, tooling, and servicing of the plastic rivet, was in charge of the developing, engineering, initial sales, mold design, and production control of these items. The plastic project was to remain part of the new product development until production molding machines were in satisfactory operation in the company's own plant.

Coordinating the sales of plastic parts with Division A's sales department was assigned to the manager of the sales development section who was to work out scheduling of field trips, pricing, and advertising policies. Production machines were to be set up in one of the company's plants. Mr. Sklenar and his assistants would then make their headquarters there. The plastics

project was eventually to be absorbed by Division A, but this step might possibly be delayed by the introduction and pilot plant manufacture of additional plastic parts.

One of the company's plants was engaged principally in experimental work. Mr. Johnson was in charge of all work being done in this plant, all personnel regularly employed reporting to him. He in turn was responsible to the new product manager. This plant conducted manufacturing operations and experimental work for special patented lock nuts and nut lock-washer assemblies. Mr. Johnson had reporting to him the nut tooling and product manager, the general foreman of nut formers and tappers, the foreman in charge of punch presses, and the tool-room supervisor. Most of the sales functions of the lock nuts had been transferred to the sales department of Division A, and the entering of orders followed the procedure applied to other standard products. Production scheduling and ordering of raw materials for the lock nuts was still the responsibility of Mr. Johnson. All phases of the commercial development of the nut-washer assembly were, however, to remain with the new product group until the product was well established, keeping in mind that all steps were to be coordinated with the appropriate Division A departments. In the initial sales of the nut-washer assembly, the manager of the sales development section would be assisted by the administrative assistant of project engineering, who would act as a field engineer. Other field engineers would be appointed as the program got under way.

In the spring of 1951, the top executives of the Patented Products Company were reviewing the organization and the operation of the new product development department in order to appraise its efficiency in fulfilling the company's needs for new products. The company was in what was generally considered a cyclical industry; and, therefore, new products less subject to cyclical influences were desired by executives. During World War II it had been found that the new product development division rose greatly in importance, while the fastener division, due to its dependence on the automotive and appliance industry, diminished in its relative importance.

Executives expressed the opinion that greater rigidity existed in the company's engineering and production departments than in the sales departments, indicating that the first consideration in development of a new product should be the utilization of the engineering and production know-how rather than the homogeneity in the methods and channels of distribution. The manufacturing operations in Division A were conducted basically on screw-making equipment and punch presses.

The creative design department had developed several ideas which were abandoned at one stage or another. One example was a metal toy, similar to an erector set. Everyone in the organization was pleased with its prospects until the president ruled out entering the toy business. Another idea was a

plastic drawer pull, which appealed to the company executives until a very cursory market survey revealed that the potential market was not large enough to warrant further effort or expense. A plastic button was not ruled out until it had been discovered that buttons are subject to a very short fashion season.

In view of these experiences, executives of the company wished to develop certain yardsticks by which new product ideas could be judged at the formative stages so as to eliminate further investigation and development of ideas that subsequently would have to be ruled out. These yardsticks would guide the new product development department in its creative efforts and should include such factors as potential volume, the specific profit possibilities, the cyclical nature of the product, and the production techniques used in manufacturing it.

The second specific problem that faced the executives of the company was the question whether the individual in charge of developing a new product and who followed its progress to the time it was handed to one of the divisions should be made manager for that product in the divisional organization, or whether he should remain in the new product development department and be assigned new ideas for development.

2. PIKE CHEMICAL COMPANY. Product Policy

In the spring of 1951 executives once again were discussing the desirability of the Pike Chemical Company integrating its marketing operations in order to bring its products closer to the consumer. In particular, the executives were discussing this question with reference to the special products department of the organic division which sold insecticides, herbicides, and weedicides in bulk quantities to convertors and formulators. These formulators did not change the chemical composition of the product, but merely formulated [1] the material and packaged it, selling it under their own brand to dealers. Some competitors of the Pike Chemical Company, however, did the formulating and compounding themselves and sold the finished product directly to dealers.

Executives believed that there were several advantages in selling to dealers and thereby eliminating the formulators and convertors. First, the company would not have to find competent and reliable formulators who had satisfactory distribution organizations. Secondly, the company would eliminate the risk of losing a considerable share of the market as was the case when a formulator decided to buy from another source. Executives recalled that during the buyers' market the company lost five or six customers who ceased their own formulating and bought finished formulations for resale. Since these formulators sold under their own brands, the company lost their dealers

[1] Dissolving it to make a liquid, diluting, or mixing with an inert powder to make a dust.

and dealers' customers as well. Lastly, executives believed that, by selling to dealers under the Pike brand, the company would have greater control of the prices charged for the products.

On the other hand, executives believed that there were certain advantages in distributing the products through convertors and formulators. It was the formulator's responsibility to locate competent distributors and dealers; and competence was of prime importance since the risk always existed that the insecticide and weedicide, if not properly used, might damage crops, in which case lawsuits might arise. Executives believed that further advantages accrued from selling to a small number of customers, including saving the cost of a large selling organization, minimizing credit and collection problems, and avoiding the investment in formulating equipment. Furthermore, the company was not subject to the wide fluctuations in inventory arising from seasonal changes in demand.

However, since the company's products had no standing at the consumer level, and since the formulator and the company each must make a profit, Pike executives believed that the company would suffer more severely in the event of a price war than its competitors, who could afford to reduce prices more drastically than Pike, because they could absorb the profit on one of the processes. Executives also realized that by integrating as suggested, the company might be able to get a larger share of the market since it would have greater control over quality, availability and price. Furthermore, the additional investment in formulating equipment might serve as an incentive for the company to embark upon further research and development in the agricultural field, the results of which might yield the company product superiority.

The integration problem was not confined to the special products division. In looking over the company's product line, executives noted other situations which suggested further consideration. For instance the company sold saccharin in bulk at a price of $1.70 per pound while the same saccharin in tablet form retailed at $60 to $70 a pound. They wondered whether it might not be profitable to carry the manufacture of saccharin through the tableting process and selling directly to drug wholesalers. Similar relationships were encountered in adhesives where these were sold in bulk to convertors and packagers.

Apart from the direct profit considerations involved in such a policy, executives believed that by absorbing one phase of the marketing pattern, enabling the use of the Pike brand, the company could improve its recognition among the public.

3. GILLETTE SAFETY RAZOR COMPANY. Selection of New Products

During the war years of 1941–1945, the Gillette Safety Razor Company increased the force in its main plant from 1,200 to 2,500 so that it might

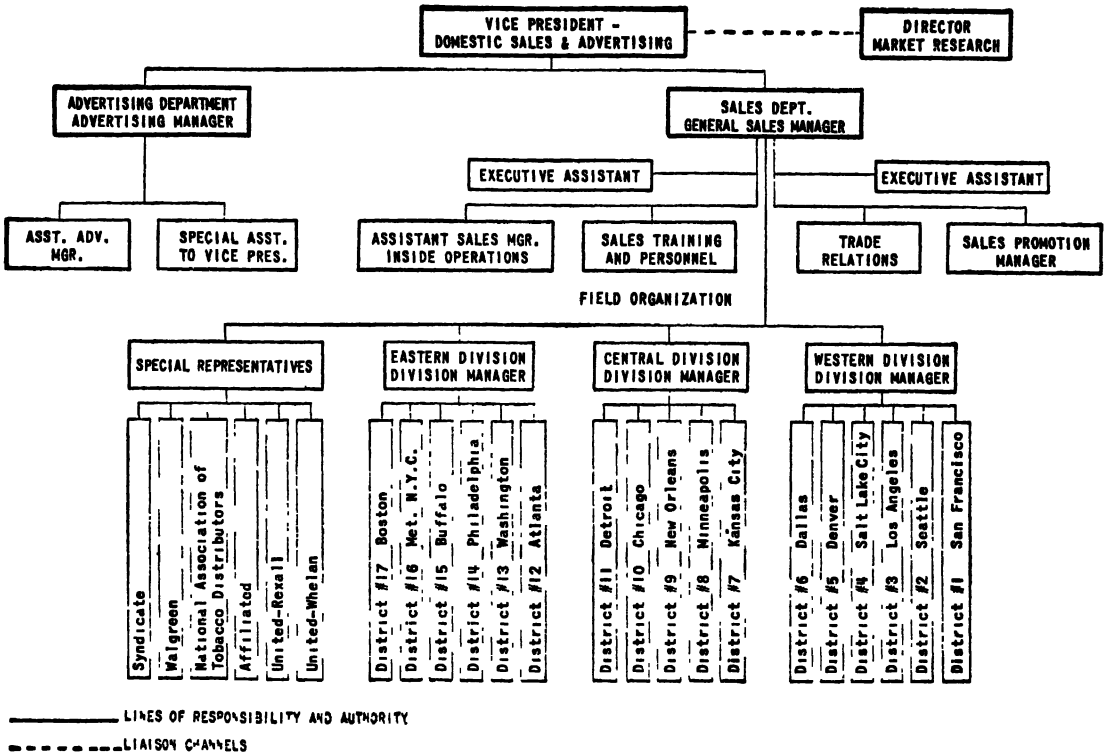
handle the large volume of war work which it had under contract. With the cessation of government orders and subcontracting work in the fall of 1945, company officials were faced with the problem of maintaining capacity production. Their objective in doing this was twofold: (1) to furnish jobs for the additional employees taken on during the war and (2) to obtain the same net earnings that had been forthcoming on war work. The main question was thus concerned with new products which might be manufactured and sold by the company to absorb the larger work force, and it was agreed that a program of product diversification would have to be adopted in order to achieve this goal.

The Gillette Safety Razor Company and its subsidiaries were engaged mainly in the manufacture and sale of safety razors and razor blades. They also produced and sold lather and brushless shaving creams, and a few articles of relatively minor importance in the cutlery line. The company divided its sales organization in the United States into 17 districts, each under a district manager. Exhibit 1 shows an organizational chart of the sales and advertising departments. All products were distributed through wholesalers, large chain, syndicate, and department stores, and mail-order houses by a salesforce consisting of 125 general salesmen. In addition, each district had territory men, responsible for calling on the wholesale and retail trade, who visited all stores in the district and assisted retailers with merchandising and sales promotion problems. Syndicate and chain stores were covered by special representatives who maintained desk space at the syndicate headquarters; in addition, general salesmen called on chain and syndicate stores located in their territories. The company's products were also distributed to other parts of the world through its export department.

In the summer of 1946, the company was examining several possible products which might diversify its present line and ensure future work for the expanded labor force. Although no definite products had been selected for the present, executives were not so pessimistic as to believe that their production and sales volumes would fall appreciably during the months to come though such a possibility was not precluded. The company was now running a two- and three-shift schedule, and it was estimated that the year 1946 would surpass all production records. Among the most widely discussed items were those which were associated with the shaving accessory line. Some of these included men's talcum powder, after-shaving lotions, hair tonic, and deodorants. Late in 1938 the company had introduced an electric razor, and early in 1939 a second type was added to the line; later that year the production and sale of both of these were discontinued. However, the machinery for making electric razors was still available, and this item was not out of the question.

Although top management preferred to concentrate on the consumer con-

Exhibit 1. ORGANIZATION OF GILLETTE SAFETY RAZOR COMPANY. Sales and Advertising Dept. May 1, 1946



venience items,[1] executives drew no line between these and industrial goods for they felt that Gillette's name and prestige were equally well established in both fields. During the war the company had specialized on precision products in its private subcontracting and government work. There was the possibility that its reputation in this field might warrant the continued manufacture of precision parts for some of the larger automobile or aircraft manufacturers. Other possibilities under consideration included the expansion of the present cutlery line, or the manufacture of some new items such as woodworking tools, baling wire, and nails. While company officials did not anticipate taking on a new product which was not adapted to existing manufacturing facilities, the physical nature of the plant was such that further expansion was possible.

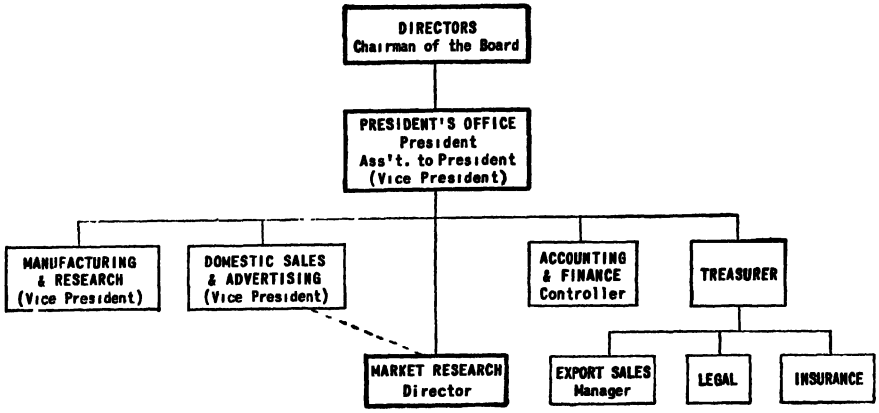
In diversifying the product line, company officials felt that they could take advantage of the brand acceptance which had been built up through a concerted advertising campaign. Gillette was well known for effective advertising which was highlighted by company-sponsored nation-wide broadcasts of sports events. Thus the search for new products was directed toward those markets in which the company might capitalize on its good will.

The market research department was independent of the sales department and reported directly to the president. Its exact relation to sales and other departments is described in Exhibit 2. The director of research pointed out that the objective of the firm's market research was to uncover pertinent market information and to interpret this in such a way as to enable the salesmen, customers, and top management to develop an ever-increasing volume of sales. In addition to the director of research, the department included six statisticians and general clerks plus one field man. Among its more routine functions were the analysis of new products, evaluation of markets, pretesting of new packages, studies of economic conditions, and many problems connected with the adjustment of sales budgets and production schedules to fit market demand. An example of the type of field work conducted by the division is found in its analysis of one phase of the razor blade market. This involved an extensive canvass of high schools in a sample territory to find out at what age boys begin shaving. By determining the number of prospective customers added to the razor market each year and then projecting results on a national scale, it was possible to keep statistics up to date on Gillette's potential sales.

In approaching the problem of analyzing a consumer market with respect to the introduction of a new product, the research department first set down the various types of information needed. In considering these products, top management wanted to know what percentage of the total amount spent on so-called convenience items went into the various product groups. Also it

[1] Defined as everyday nondurable items generally sold through drug, grocery, tobacco stores, etc.

Exhibit 2. GILLETTE SAFETY RAZOR COMPANY



wanted to know what portion of the total dollar volume was accounted for by the different areas (sections, states, counties, cities) in the United States. These data would provide some basis for eliminating those items on which the national volume would be so small as to exclude them from further consideration. Furthermore, they would reveal what portions of the country accounted for sufficient sales of a particular item to warrant merchandising and sales promotional efforts. Next, executives were interested in the percentage of the market held by their existing lines and the strength of competition from established brands. They felt that such information might influence their decision to manufacture and introduce an item similar to that of their competitors such as a Schick-type razor or a single-edge blade of the kind produced by the American Safety Razor Company. Finally, of considerable value in dealing with the problem of selecting a new product was a knowledge of the importance of different types of outlets, the market price structure, and the nature of repeat sales. Thus far the market research department had completed what it considered a 100% coverage of market and production data on only one product which had been developed during the war.

In collecting the information on total volume of convenience items sold and their distribution by market areas, the director of market research turned to the results of a survey that his department had recently undertaken (Exhibit 3). The main purpose of this study had been to provide information which might be used as a check on sales volume and which might also serve as a sales promotional aid; however, the statistics were considered very helpful in appraising consumer markets for products now under consideration. As a basis for the survey, 50 product classifications, representing the bulk of consumer expenditures on convenience items, were selected. In addition to

Exhibit 3. NATIONAL CONSUMER EXPENDITURES

	In all outlets	In drug stores	Drug stores, %	% share of total drug business enjoyed by drug chains vs. independents
1. Alcoholic beverages	$5,187,000,000	xx	xx	xx
2. Tobacco products and smoking supplies [a]	2,900,000,000	xx	xx	xx
3. Magazines, sheet music, and newspapers [b]	837,000,000	xx	xx	xx
4. Confectionery items	800,000,000	xx	xx	xx
5. Drug preparations and sundries [c]	794,200,000	xx	xx	xx
6. Toilet articles and preparations [d]	725,000,000	xx	xx	xx
7. Prescriptions	304,316,000 [e]	$302,486,000 [e]	99.4	xx
8. Stationery and writing supplies [f]	220,000,000	xx	xx	xx
9. Vitamin concentrates	182,643,000 [e]	141,435,000 [e]	77.4	21.8
10. Chewing gum	160,000,000	xx	xx	xx
11. Insecticides and disinfectants	103,966,000 [e]	25,710,000 [e]	24.7	xx
12. Baby foods	100,000,000	4,000,000	4.0	12.6
13. Toilet soaps	95,700,000 [e]	8,706,000 [e]	9.1	xx
14. Cathartics and laxatives	93,872,000 [e]	61,800,000 [e]	65.8	18.8
15. *Razor blades, razors, and shaving cream* [g]	*93,383,000*	*30,745,160*	*32.9*	*31.0*
16. Toilet paper	90,000,000 [e]	4,500,000 [e]	5.0	xx
17. Cough and cold items	84,194,000 [e]	61,151,000 [e]	72.6	15.5
18. Headache relievers	80,810,000 [e]	53,812,000 [e]	66.6	20.7
19. Dentrifrices	71,031,000 [e]	39,860,000 [e]	56.1	28.3
20. Tonics	57,354,000 [e]	47,849,000 [e]	83.4	xx
21. Sanitary napkins	55,980,000 [e]	31,875,000 [e]	56.9	13.7
22. First aid goods	50,200,000 [e]	38,991,000 [e]	77.7	xx
23. Cold, cleansing, and all-purpose creams	45,520,000 [e]	19,364,000 [e]	42.5	27.7
24. Pipes	45,000,000	xx	xx	xx
25. Toothbrushes	35,333,000 [e]	17,991,000 [e]	50.9	29.0
26. Stomach sweeteners	33,923,000 [e]	25,466,000 [e]	75.1	xx
27. Foot products	30,560,000 [e]	16,175,000 [e]	52.9	23.0
28. Cleansing and facial tissues	26,116,000 [e]	11,086,000 [e]	42.4	xx
29. Feminine hygiene medicaments.	25,250,000 [e]	21,000,000 [e]	83.2	xx
30. Hair shampoos	24,062,000 [e]	14,812,000 [e]	61.6	22.0
31. Health foods	24,000,000 [e]	6,500,000 [e]	27.1	xx
32. Hand lotions	23,136,000 [e]	10,814,000 [e]	46.7	18.7
33. Hearing aids	21,250,000 [e]	315,000 [e]	1.5	xx
34. Salves and ointments	20,382,000 [e]	14,542,000 [e]	71.3	xx
35. Hospital rubber goods	19,180,000 [e]	16,086,000 [e]	83.9	xx
36. Deodorants	18,166,000 [e]	8,420,000 [e]	46.3	27.2
37. Mouthwashes and gargles	17,600,000 [e]	13,040,000 [e]	74.1	25.7
38. Contraceptive jellies and diaphragms	16,600,000 [e]	14,816,000 [e]	89.2	xx
39. Hair tonics	15,600,000 [e]	11,320,000 [e]	72.6	xx
40. Trusses, braces, elastic bandages	13,648,000 [e]	6,100,000 [e]	44.7	xx
41. Hair- and toilet brushes	12,500,000 [e]	4,966,000 [e]	39.7	xx

Exhibit 3. NATIONAL CONSUMER EXPENDITURES (*Continued*)

	In all outlets	In drug stores	Drug stores, %	% share of total drug business enjoyed by drug chains vs. independents
42. Liniments	$10,589,000 [e]	$8,016,000 [e]	75.7	xx
43. Sunglasses and goggles	9,890,000 [e]	5,250,000 [e]	53.1	xx
44 Baby oil	6,425,000 [e]	5,391,000 [e]	83.9	18.0
45 Burn remedies	5,900,000 [e]	4,970,000 [e]	84.2	16.1
46. Baby powder	5,900,000 [e]	4,366,000 [e]	74.0	xx
47. Hand creams	5,557,000 [e]	2,780,000 [e]	50.0	xx
48. Dog and pet medicaments	4,953,000 [e]	3,703,000 [e]	74 8	xx
49. False teeth items	4,475,000 [e]	3,538,000 [e]	79 1	xx
50. Fever thermometers	4,065,000 [e]	3,458,000 [e]	85.1	xx

xx Not available.

[a] Cigarettes, cigars, chewing and smoking tobacco, snuff, pipes, cigar and cigarette holders.

[b] Newspaper subscriptions and sales, periodical subscriptions and sales (excluding business periodicals), and lithographed music.

[c] Proprietary medicines and compounds, drugs, etc., for prescriptions, water bottles and syringes, rubber gloves, nipples and pacifiers, miscellaneous druggists' and medicinal sundries, surgical supplies, and sanitary napkins.

[d] Shaving soaps, toilet soaps, bars, perfumes, cosmetics, and other toilet preparations, razor blades, combs and hairpins, toothbrushes, toilet brushes, shaving brushes, razors and dry shavers, and razor strops.

[e] Copyrighted by *Drug Topics*. Reproduced by permission.

[f] Writing paper, envelopes, writing tablets, blank books, writing ink, pencils, crayons, lead for mechanical pencils, mucilage, paste, rubber cement, erasers, rubber bands, artists' materials, and greeting cards.

[g] $65,000,000 razor blades; $23,000,000 shaving creams, $5,383,000 razors.

the total dollar amount spent on each group of items, the survey purported to show what portion was sold through drug stores and also through drug chains as contrasted with independents. The principal sources of these consumer data were Department of Commerce and various trade publications. Most of the figures were obtained originally from national associations such as the American Soap and Glycerin Manufacturers of which the company was a member. In view of the fact that approximately 75% of manufacturers in the selected classifications belonged to such organizations, the figures did not represent absolute totals. The company also subscribed to the services of the A. C. Nielsen Company, a market research organization, and many of the data supplied by this firm were used in the survey. With the aid of these sources of information, the statistics were then broken down by 9 different sections, 48 states, 3,074 counties, and over 300 selected cities. An illustration of the breakdown by sections and by cities is presented in Exhibits 4 and 5. Thus the director of market research might check the company's sales in one area against that portion of total industry sales accounted for by the same area. Any discrepancy in the company's share of particular market areas could easily be detected. As a sales aid, this same information might be used

Exhibit 4. Consumer Expenditures Estimated for 1946

	Tobacco products and smoking supplies *	Confectionery items	Chewing gum	Razor blades, razors, and shaving cream †	Pipes	Toothbrushes	Sunglasses and goggles
New England (Maine, N.H., Vt., Mass., R.I., Conn.)	$ 265,650,000	$ 60,072,000	$ 12,144,000	$ 7,134,600	$ 3,415,500	$ 2,732,400	$ 759,000
Middle Atlantic (N.Y., N.J., Pa.)	820,050,000	187,440,000	37,488,000	22,024,200	10,543,500	8,434,800	2,343,000
East North Central (Ohio, Ind., Ill., Mich., Wis.)	782,250,000	178,800,000	35,760,000	21,009,000	10,057,500	8,046,000	2,235,000
West North Central (Minn., Iowa, Mo., N.Dak., Nebr., Kans.)	319,200,000	72,960,000	14,592,000	8,572,800	4,104,000	3,283,200	912,000
South Atlantic (Del., Md., D.C., Va., W.Va., N.C., S.C., Ga., Fla.)	378,700,000	86,560,000	17,312,000	10,170,800	4,869,000	3,895,200	1,082,000
East South Central (Ky., Tenn., Ala., Miss.)	160,650,000	36,720,000	7,324,000	4,314,600	2,065,500	1,322,400	459,000
West South Central (Ark., La., Okla., Tex.)	272,300,000	62,240,000	12,448,000	7,313,200	3,501,000	2,800,800	778,000
Mountain (Mont., Idaho, Wyo., Colo., N.Mex., Ariz., Utah, Nev.)	122,150,000	27,920,000	5,584,000	3,280,600	1,570,500	1,256,400	349,000
Pacific (Wash., Oreg., Calif.)	379,050,000	86,640,000	17,328,000	10,180,020	4,873,500	3,898,800	1,083,000
U.S. total	$3,500,000,000	$800,000,000	$160,000,000	$94,000,000	$45,000,000	$36,000,000	$10,000,000

* Cigarettes, cigars, chewing and smoking tobacco, snuff, pipes, cigar and cigarette holders.
† $65,000,000 razor blades; $23,000,000 shaving creams; $5,383,000 razors.
NOTE: Figures available for individual states, counties, or cities.
SOURCE: Copyrighted by Gillette Safety Razor Co., 1946. Market Research Dept. Reproduced by permission.

Exhibit 5. CONSUMER EXPENDITURES

	National	Washington, D.C.	Baltimore, Md.	Richmond, Va.
1. Alcoholic beverages	$5,187,000,000	xx	xx	xx
2. Tobacco products and smoking supplies [a]	2,900,000,000	$28,304,000	$27,202,000	$7,192,000
3. Magazines, sheet music, and newspapers [b]	837,000,000	8,169,120	7,851,060	2,075,760
4. Confectionery items	800,000,000	7,808,000	7,504,000	1,984,000
5. Drug preparations and sundries [c]	794,200,000	7,751,392	7,449,596	1,969,616
6. Toilet articles and preparations [d]	725,000,000	7,076,000	6,800,500	1,798,000
7. Prescriptions	304,316,000 [e]	2,970,124	2,854,484	754,704
8. Stationery and writing supplies [f]	220,000,000	2,147,200	2,063,600	545,600
9. Vitamin concentrates	182,643,000 [e]	1,782,596	1,713,191	452,955
10. Chewing gum	160,000,000	1,561,600	1,500,800	396,800
11. Insecticides and disinfectants	103,966,000 [e]	1,014,708	975,201	257,836
12. Baby foods	100,000,000	976,000	938,000	248,000
13. Toilet soaps	95,700,000 [e]	934,032	897,666	237,336
14. Cathartics and laxatives	93,852,000 [e]	916,191	880,519	232,803
15. *Razor blades, razors, and shaving cream* [g]	*93,383,000*	*911,418*	*875,933*	*231,590*
16. Toilet paper	90,000,000 [e]	878,400	844,200	223,200
17. Cough and cold items	84,194,000 [e]	821,733	789,740	208,801
18. Headache relievers	80,810,000 [e]	788,706	757,998	200,409
19. Dentrifrices	71,031,000 [e]	693,263	666,271	176,157
20. Tonics	57,354,000 [e]	559,775	537,981	142,238
21. Sanitary napkins	55,980,000 [e]	546,365	525,092	138,830
22. First aid goods	50,200,000 [e]	489,952	470,876	124,496
23. Cold, cleansing, and all-purpose creams	45,520,000 [e]	444,275	426,978	112,890
24. Pipes	45,000,000	439,200	422,100	111,600
25. Toothbrushes	35,333,000 [e]	344,850	331,424	87,626
26. Stomach sweeteners	33,923,000 [e]	331,088	318,198	84,129
27. Foot products	30,560,000 [e]	298,266	286,653	75,789
28. Cleansing and facial tissues	26,116,000 [e]	254,892	244,968	64,768
29. Feminine hygiene medicaments	25,250,000 [e]	246,440	236,845	62,620
30. Hair shampoos	24,062,000 [e]	234,845	225,702	59,674
31. Health foods	24,000,000 [e]	234,240	225,120	59,520
32. Hand lotions	23,136,000 [e]	225,807	217,016	57,377
33. Hearing aids	21,250,000 [e]	207,400	199,325	52,700
34. Salves and ointments	20,382,000 [e]	198,928	191,183	50,547
35. Hospital rubber goods	19,180,000 [e]	187,197	179,908	47,566
36. Deodorants	18,166,000 [e]	177,300	170,397	45,052
37. Mouthwashes and gargles	17,600,000 [e]	171,776	165,088	43,648
38. Contraceptive jellies and diaphragms	16,600,000 [e]	162,016	155,708	41,168
39. Hair tonics	15,600,000 [e]	152,256	146,328	38,688
40. Trusses, braces, elastic bandages	13,648,000 [e]	133,204	128,018	33,847
41. Hair- and toilet brushes	12,500,000 [e]	122,000	117,250	31,000
42. Liniments	10,589,000 [e]	103,349	99,325	26,261
43. Sunglasses and goggles	9,890,000 [e]	96,526	92,768	24,527
44. Baby oil	6,425,000 [e]	62,708	60,267	15,934
45. Burn remedies	5,900,000 [e]	57,584	55,342	14,632

Exhibit 5. CONSUMER EXPENDITURES (*Continued*)

	National	Washington, D.C.	Baltimore, Md.	Richmond, Va.
46. Baby powder.	$5,900,000 [e]	$57,584	$55,342	$14,632
47. Hand creams	5,557,000 [e]	54,236	52,125	13,781
48. Dog and pet medicaments .	4,953,000 [e]	48,341	46,459	12,283
49. False teeth items	4,475,000 [e]	43,676	41,976	11,098
50. Fever thermometers	4,065,000 [e]	39,674	38,130	10,081

xx Not available.

[a] Cigarettes, cigars, chewing and smoking tobacco, snuff, pipes, cigar and cigarette holders.

[b] Newspaper subscriptions and sales, periodical subscriptions and sales (excluding business periodicals), and lithographed music.

[c] Proprietary medicines and compounds, drugs, etc., for prescriptions, water bottles and syringes, rubber gloves, nipples and pacifiers, miscellaneous druggists' and medicinal sundries, surgical supplies, and sanitary napkins.

[d] Shaving soaps, toilet soaps, bars, perfumes, cosmetics, and other toilet preparations, razor blades, combs and hairpins, toothbrushes, toilet brushes, shaving brushes, razors and dry shavers, and razor strops.

[e] Copyrighted by *Drug Topics*. Reproduced by permission

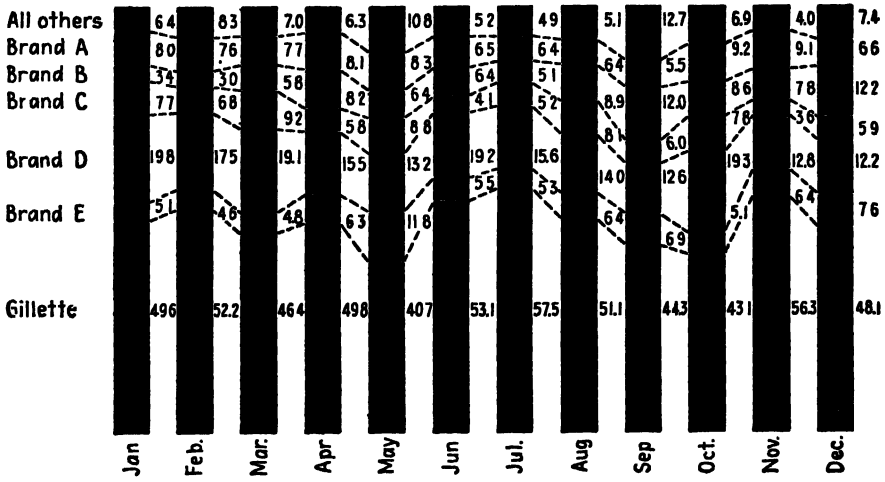
[f] Writing paper, envelopes, writing tablets, blank books, writing ink, pencils, crayons, lead for mechanical pencils, mucilage, paste, rubber cement, erasers, rubber bands, artists' materials, and greeting cards.

[g] $65,000,000 razor blades; $23,000,000 shaving creams; $5,383,000 razors.

by the home office in its contacts with distributors or by missionary salesmen (territory men) in their calls on retailers. Thus it might be pointed out to an independent druggist, that on the basis of these findings, his merchandising emphasis was adjusted to sales potentials for his territory. If the razor and razor blade sales for a certain area showed an unsatisfactory relationship to the potential, it might indicate that a better selling job could be done by changing sales and advertising emphasis. Obviously this needed to be done tactfully with full recognition of the position of the particular retailer.

The data furnished by this survey provided some basis for appraising the market potential of products under consideration. In an effort to provide a running check on the company's competitive position, weekly sales figures for Gillette and its competitors in a number of "key" or "test" cities were obtained. These cities were representative of the Gillette market and had those characteristics which normally affected razor and razor blade sales in all market areas. The sales data for these test cities were then compiled in a separate book, the purpose of which was to give the research department an opportunity to check Gillette's performance against that of competitors. Weekly and monthly, the sales volumes were plotted on a subdivided percentage bar chart (Exhibit 6); the important objective of this type of statistical presentation was to reveal trends in the progress of various products on the market. Although the proportions shown in the exhibit are fictitious and do not indicate trends extending over periods of 5 or 6 months, there actually were many. A few of the outstanding causes for ups and downs in Gillette's

Exhibit 6. MONTHLY SHARE-OF-THE-MARKET CHART *



* These proportions are fictitious and only illustrate the company's method of compiling key city data.

share of the market were: lack of availability of raw materials, a high out-of-stock, a heavy advertising campaign or concentration of the advertising budget during a certain period. Another important cause of fluctuations was found in the special sales promoted by other brands which gave them a larger share of the market for a short period. The collection of sales data in key cities also served as a check on the effectiveness of both the company's and the competitors' advertising campaigns. For instance by observing the sales figures following the Louis-Conn fight, the immediate effect of this type of sales promotion on the areas in question could be estimated. Then, with the test cities as a base, the figures were projected on a national scale; in this way the market research department could furnish executives with some indication of whether the advertising was successful. A further check was kept in the factory shipment record; this showed the percentage of the company's products going through various channels. If a particular sales program was directed toward increasing sales through chain drug stores, its success would be registered in the increased percentage of shipments to this outlet. Although the primary objectives of the key or test city statistics were the checking of competitive trends and effective sales promotion, they simultaneously provided information incidental to finding out what chance a new product might have if introduced under the Gillette brand name. The director of research believed that information of this sort could, in addition to indicating the degree of brand acceptance, definitely forecast the success of a new product.

Various research techniques were used to analyze the importance of dif-

ferent types of retail outlets. One of the chief devices employed in the field to test the value of a retail channel was referred to as "door opening." The field representative would go down the street entering each type of store, finding out whether it carried Gillette or similar products and, if so, its approximate sales on such items. In this manner, the market research department could get an approximate idea as to the importance of all outlets as retailers of Gillette products. In addition, studies of a similar nature had been made by publishers of national magazines to determine the sales volume of a number of drug items passing through various outlets. For instance, a survey had been made by the Curtis Publishing Company to find out the relative value of the grocery, drug, and hardware store as retail distributors of razor blades. This type of field survey supplemented the statistics which the research department was able to compile from trade, government, and national manufacturers' association publications.

Finally, the market research department ordinarily spent a great deal of time in the analysis of various forces acting on the market price structure. The findings of these studies and the development of new procedures which resulted from them were of vital importance in considering new products. It was emphasized that the company would not take for granted the popular price of a certain convenience item already on the market. In the case of the new product that had been developed, the following method of determining consumer reaction was suggested. First, a display featuring similar products now on the market together with retail prices would be made up in the form of a kit so that it would be convenient for a house-to-house survey by a field representative. In the display would also be the new Gillette product but without any designated price. The fieldman could then question the consumer on his opinion of present prices and what he would be willing to pay for the Gillette brand. At the same time, valuable information on the effectiveness of packaging would be obtained. The research department would then have the job of evaluating the results of this canvass in the light of the popular price for this type of product.

Still another important factor in the price structure was studied. As illustrated in the razor blades market, the determination of an initial price is influenced by a rate-of-usage factor. A man might be able to get five or six shaves out of a Gillette blade as opposed to only two or three from a competitor's; thus the company's product would warrant a higher price. The rate-of-usage factor in this particular instance was found mainly through sidewalk interviews where a research representative would stop passers-by and question them on results obtained with both Gillette's and competitors' blades. Naturally, the rate-of-usage factor would not apply to all types of products, but it was applicable to some that had been proposed. Finally, the number of repeat sales determined by the nature of the product also entered into the price question. For instance, two billion razor blades might be pur-

chased in one year as opposed to only 100 million toothbrushes in the same period. Should Gillette enter the latter market, a price would have to be set which would include a higher gross margin so that a net profit corresponding to that earned on razor blades might be realized. Basically, however, the rate of usage would involve such considerations as manufacturing, merchandising, and distribution as well as pricing. For instance, the potential number of units to be sold would be an important factor in forecasting such production data as the rate of absorption of the work force. The analysis of repeat business was another of the research department's routine studies which, in many cases, furnished management with information needed in making decisions on new products.

In addition to the information on prospective markets which was thus far obtained largely as a by-product of everyday statistical studies, the director of research felt that top management would need additional data on consumer attitudes. As one method of sounding out customer opinions, he suggested that the following procedure be used. The art department would first draw up eight or nine colored advertisements illustrating the two or three products which executives had selected for final consideration after studying results of field work. After a suitable cross section of the potential market had been laid out, interviewers would go into the field and ask the prospective customers which of these products they would buy. In other words, an attempt would be made to estimate the marketability of the product from the standpoint of its appeal to the consumer. A similar procedure might be followed with respect to industrial markets. In this case, however, field representatives would use the personal interview to get opinions from purchasing agents, wholesale houses, and retail stores. The main objective of this type of survey would be to find the reaction of prospective customers to a proposal that Gillette manufacture a line of nails, baling wire, or other metal products. Such a study might reveal that the name, Gillette, was too closely associated with precision manufacturing and thin metal products to permit such a product as baling wire, which depended on high tensile strength, to be a success. It might also bring forth suggestions and ideas for new products which industry would like to see introduced under the Gillette brand and would be willing to purchase. The information obtained in this type of research would give top management a basis for deciding whether (1) products should be considered as a possibility, (2) they should be marketed under the Gillette name, or (3) they should be manufactured by a subsidiary and sold under a different name.

By July, 1946, market research had produced a statistical analysis of several products, although no decision on introducing one of them had been reached. Executives emphasized the value of market research in enabling management to avoid some pitfalls common to the invasion of competitive fields. In addition to providing some basis for estimating Gillette success in a particular

field, research was expected to (1) gauge competitive conditions exhaustively and accurately and (2) properly appraise the power of the originator's advantage. It was toward these objectives that the company's research had been directed. At this time, Gillette officials were in the process of appraising the completeness of their market analyses and the soundness of the facts on which their conclusions were to be based before reaching any final decision.

In December, 1947, the Gillette Company purchased the entire stock of Toni Company, Chicago, manufacturer of a home permanent wave kit and shampoo cream at a cost of more than $12,000,000. The company made an initial cash payment of $11,500,000 and the entire balance was paid before January 5, 1954. The net earnings of the division exceeded the total amount paid. The Toni Company was later dissolved and the business operated as Toni Division which was located in St. Paul.

In 1954 the sales of the Toni Division and its contribution to the net earnings of the company showed substantial gains over the previous year and Toni brands continued their dominant position in the rapidly expanding market. A new home permanent wave product, Casual, was introduced to the market in January, 1955.[2]

As of September 30, 1955, the purchase of the various companies engaged in the manufacture and distribution of Paper-Mate pens, located in the United States and Puerto Rico, had been consummated. The total purchase price paid was over $15,000,000. The acquisition was for cash and involved neither an exchange of stock nor public financing.[3]

4. HIBBARD, SPENCER, BARTLETT & COMPANY (A). Simplification of the Product Line

Hibbard, Spencer, Bartlett & Company, a large wholesale firm, distributed a line of hardware, sporting goods, and paints throughout the United States to independent retail hardware stores. Approximately 50,000 items, divided among 14 departments (18 in 1938),[1] were carried in the company's 13-story

[2] Annual report, 1954.

[3] *Commercial and Financial Chronicle,* November 28, 1955, p. 5.

[1] The products handled in one of the smaller departments are listed below:

Adzes	Bobs, Plumb	Claws, Tack	Handles—
Aprons, Carpenters'	Borers, Bung	Clippers, Bolt	Axe
Awls—	Boxes, Miter	Drills—	Chisel
Brad	Braces	Breast	File
Scratch	Calipers and Dividers	Hand	Hammer
Axes	Chests, Tool	Star	Tool
Bags, Tool	Chisels	Twist	Hatchets
Bars, Crow	Clamps, Carpenters'	Files	Letters and Figures, Steel
Bits, Auger		Gimlet Bits	Levels and Plumbs
		Hammers	

(*Footnote continued on next page.*)

warehouse in Chicago, Illinois. Each department was under a buyer who was responsible for the pricing of products, stock control, and purchasing. These buyers, in turn, reported to a vice president in charge of purchasing who had to approve any order over $500. A small force of "city salesmen" covered the Chicago area while 200 men, under the supervision of 5 regional managers, sold in outlying territories. Salesmen were paid average base salaries and received commissions of 2½% to 5½%, depending on the gross profit of the lines sold. In the fall of 1943, the firm was undertaking a program aimed at developing a more efficient operation through the reduction of the number of items carried in stock.

In considering the possible effects of this shift in merchandising policy, one which had not been tried on a similar scale in the hardware industry, Hibbard executives were able to draw on many years of experience in dealing with retailers on the merchandising aspects of the business. Furthermore, during the last few years, in the Illinois area the company had operated eight retail stores primarily to determine the best operating and merchandising techniques so that it might be in a position to bring about improvement in its retail outlets. Prior to embarking on a policy of simplification, Hibbard had made a survey of retail operations to find out the types of lines and products which commonly had the fastest turnover. Company officials decided that, in their opinion, too many items were carried by dealers, some duplications, and others offering retailers and customers a choice that was unnecessary. In commenting on the disadvantages to both wholesaler and retailer of carrying an overly large inventory which might be reduced, Mr. R. H. Scott, Hibbard's dealer service manager in charge of the simplification program, described the overhead and insurance expense involved, the difficulty that salesmen had in selling an expanded line, and the confusion to the retailer and consumer. In his opinion, the wartime conditions resulting in shortages of the various hardware items provided an excellent opportunity for the company to initiate a stock reduction program which, in the end, would prove an aid to the retailer who was already confused by various merchandising and operating problems.

(*Footnote continued from previous page.*)

Mallets
Mattocks
Mauls
Movers, Car
Mowers, Lawn
Openers, Crate
Picks
Planes
Plates, Screw
Pliers
Pullers, Nail
Punches
Reamer Bits
Reamers
Rods, Miter
Rules
Scrapers, Box
Screw Drivers
Screws—
  Bench
Screws—
  Hand
Sets, Saw
Sledges
Ships, Tinners'
Squares
Tampers
Tapes
Tools—
  Anvil
Tools—
  Brick
  Cement
  Starrett
  Tinners'
Trowels—
  Brick
  Plastering
  Pointing
Wrenches

While the average hardware store carried 7,000 items, Hibbard hoped to persuade most dealers to reduce this amount to 5,000. However, because it was a large wholesaler, the company had accumulated relatively many more types and sizes of various hardware products, and executives realized that the reduction they could make would be substantially greater than they could expect of their customers. At the same time, there were many areas where lines could not be cut. Some products, particularly sports equipment, would sell in certain parts of the country and not in others. Also, the company had to continue to carry some factory brand names even though they had a relatively low wholesale turnover because a few important customers might protest saying that they had sufficient demand for these brands. Furthermore, it was good advertising for a dealer to carry a nationally advertised brand even though its sales might not be satisfactory. The company's tool department, the first to be considered under the new policy, formerly contained 10,000 items, but according to current plans was to have only 1,500. Some time was required to eliminate slow-moving stock after stopping purchases; consequently this objective figure, as in the case of the remaining departments, had not been reached by the winter of 1946. In addition to the saving in money, Mr. Scott anticipated several other advantages which might accrue to the firm. Since many different brands would be dropped from certain lines, there would be a saving of time and money in dealing with fewer suppliers. In following such a procedure, Hibbard might also effect certain economies in purchasing by having manufacturers submit bids, and, since larger orders would be placed with fewer suppliers, larger quantity discounts could be obtained. Furthermore, if the selection of items was too large, both the retailer and consumer took a much longer time to decide what they wanted. Thus, a smaller stock would speed turnover for both Hibbard and its customers.

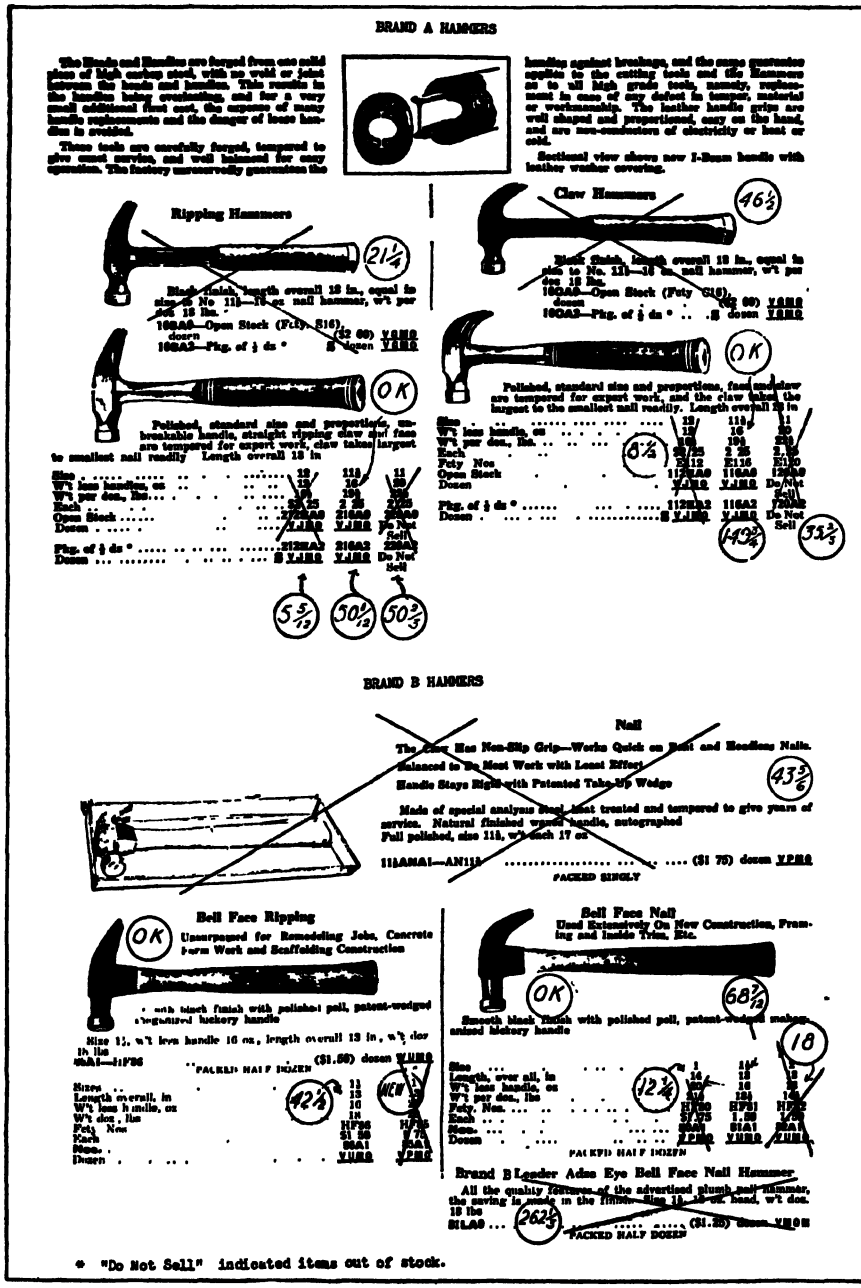
As a basis for the simplification program, Mr. Scott first set up a preliminary list of comparisons using past sales as a yardstick in measuring the value of an item. Taking the items in one particular department, he noted their sales for what he considered a typical year, 1939, opposite each item's description in the company's stock catalogue. Where 1939 sales figures were not conveniently obtained, he took the most recent prewar figures available. Next, where possible, he attempted to obtain from manufacturers total sales figures for their respective items; in different cases, such data were available only in limited forms. For instance, from one manufacturer of wood saws, he obtained a figure for unit sales as a percentage of total saw sales. He then selected two or three large hardware retailers whose sales, he believed, would indicate as accurately as could be expected the relative demand for each make, type, and size of the various products. Retailers chosen for this portion of the study included such firms as Sears, Roebuck and Montgomery Ward. They varied of necessity, however, for some of them did not carry all items listed in the company's catalogue. After making a comparison of

the sales figures assembled for each item, he noted on the pages of the stock catalogue his opinions as to which products should be dropped and which should be retained. The data for different departments were then submitted to a committee composed of the sales manager, the director of purchasing, the buyer of the particular line of goods, and Mr. Scott. In Exhibit 1 is shown a sample page listing brands and types of claw hammers formerly carried in the company's tool department, past sales figures in dozens for each item, and tentative impressions as to which hammers should be dropped and which should be retained. From the items marked "o.k.," the committee selected the final line; a few items not listed in the original catalogue were added.

From a joint analysis of the figures submitted, the committee determined what it believed to be the items which should comprise different lines in the future. In making these selections, members of the committee did not rely on the comparisons of sales figures alone, but also drew on their many years of experience in the industry to arrive at their decisions. This experience, Mr. Scott commented, was the most important factor determining the number of lines to be carried; without it, their judgment in selecting merchandise would not have been reliable. Some of the items under consideration could not have been dropped even though sales figures indicated they were slow moving. For instance, in cases where different types of one item had to be retained to satisfy the demands of different geographical areas, the committee passed on them in spite of their low profit prospects. A further consideration taken into account in setting up lines of merchandise was the need for maintaining a balanced price range for each type of article. As in other cases, low turnover items were retained if they were required to fill in "gaps" in the price line. Nevertheless, the committee succeeded in discarding many obsolete items of different sizes and types that did not sell and, in addition, eliminated many duplicate products. For instance, in one case, a particular type of hammer, formerly purchased in 15 different colors and makes, was to be reduced to one. Such overstocking often resulted from the practice of manufacturers selling hammers to Hibbard for special sales; when the sales were over, the hammers were put in a stock drawer and listed as additional items. Altogether, the company's line of claw hammers was reduced from 70 to 16. In another case where the company previously carried four different brands of files, classified by 150 sizes and types, the new line was composed of two types, one for the mechanic, artisan, and workman, the other for household use, and included only 40 sizes and types. Similarly, six brands of auger bits, each covering 18 different sizes, were reduced to two, each retaining an equal number of sizes. When the committee had completed its selection work, its members believed that Hibbard had successfully planned a line of merchandise which would satisfy the demands of any hardware store.

In adopting the new stock policy, company executives did not anticipate any difficulty in relations with manufacturing suppliers, although a few from

Exhibit 1. HIBBARD, SPENCER, BARTLETT & COMPANY. Original Line of Claw Hammers



whom Hibbard had purchased very slow-moving and unprofitable items would be dropped. As a part of its program, the company was also attempting to improve packaging practices from the standpoint of reshipping to the retail customer. Here, Mr. Scott explained, the firm worked with manufacturers in an effort to persuade them to ship products in package sizes that would, where possible, be convenient for reshipment. In many cases, improvements were not possible, but company officials were of the opinion that by ordering larger quantities from fewer suppliers, they would be in a better position to bargain on these matters. A second important factor in the reduction of reshipping cost was the extent to which the company was able to reduce the number of open stock items carried. Open stock items, such as fishhooks, were articles that were too light to be packaged for shipment to a retailer and thus had to be handled separately for each individual order.

One problem which executives acknowledged was that caused by the introduction of new products which would either replace some items dropped or constitute additions to the stock list. Currently, the sales promotion department was planning the addition of automobile tires and tubes as well as certain other accessories partly in order to compete with automobile suppliers who had entered the hardware business. However, offsetting such additions were items such as those found in the harness department which were fast disappearing. Prospects nevertheless pointed toward a more rapid increase in the number of new items than in the number being taken off the market.

5. HARRIS-SEYBOLD COMPANY (A)

Introduction. The Harris-Seybold Company, one of the largest machinery manufacturers supplying the printing and publishing industry, made 75% of the offset lithographic presses and paper cutters produced in the United States. It also manufactured rotary letter presses, lithographic chemicals, paper drills and other equipment, and handled through its own sales organization supplies and equipment of other manufacturers.

Harris-Seybold's annual sales of more than $21,000,000 were distributed as follows: Offset lithographic presses, 70%; paper cutters and paper drills, 18%; rotary letter presses, 7%; and lithographic chemicals and resale supplies and equipment, 5%. Ninety per cent of the sales was made in the United States, 10% abroad. Presses ranged from $10,000 to $200,000, while Seybold cutters ranged from $4,000 to $28,000. The company's average sale of these products was between $25,000 and $30,000. Resale equipment was listed under $5,000. Most orders for supplies and lithographic chemicals were for $50 to $500 worth of merchandise.

Harris-Seybold's large presses were manufactured in Cleveland, Ohio, by the Harris Division. Small presses, cutters, drills, and bindery equipment were manufactured in Dayton, Ohio, by the Seybold Division. The company

recently completed a used machinery rebuilding plant in Chicago and moved its growing chemical operations out of the Harris Division plant into another building in Cleveland.

The company maintained 13 branch and district offices in major cities of the country. The salesforce consisted of 36 salesmen and 9 district managers. Prior to World War II, the paper cutter line had been sold through dealers and the press line through the company's own salesmen. After the war, the lines were combined and sold through one expanded direct distribution system. Also since the war, the company had added resale items to fill out its product line, to assist in absorbing the greater selling expense, and to help locate products which Harris-Seybold might eventually want to develop for manufacture.

Offset lithography was one of three principal methods of printing. The others were the gravure and the letter press or typographic methods. The most common method was letter press, in which the printing surface was raised above the nonprinting area. Large rotary web fed letter presses, sheet fed rotary letter presses, and sheet fed flatbed letter presses were used extensively in the printing of newspapers, magazines, and commercial work. The gravure method employed a printing surface which was etched or engraved below the nonprinting area, providing wells which held the ink until it was transferred directly to the paper. Gravure printing usually was done on a rotary type web press. It accounted for only a small percentage of total printing and was used mostly in the magazine and pictorial newspaper fields.

In offset lithography, the printing and nonprinting areas were on the same plane. The plate was prepared by a photographic process and chemical treatment so that it held moisture over the nonprinting areas and greasy ink over the printing surface. The process was based on the principle that grease and water do not mix. The offset feature consisted of transferring the image to a rubber blanket and from there to the paper.

Prior to 1900 lithography was used primarily for reproducing color illustrations in high quality printing. In 1906 the Harris Automatic Press Company[1] produced a rotary sheet fed offset press which increased the speed and reduced the cost of the lithographic process. Photography then was made a part of the process. Its use in preparing the lithographic plate enabled the printer to paste together the typed copy, photographs, and sketches making up the complete form to be reproduced. Hence, a picture of the final product could be obtained before any expense was incurred in photography or printing. Corrections or changes in the copy and layout could be made quickly by

[1] The Harris Automatic Press Company, the Premier-Potter Press Company and the Seybold Machine Company were merged in 1927 to form the Harris-Seybold-Potter Company. The firm continued under that name until 1946 when it became known as the Harris-Seybold Company. The Seybold Machine Company had become the leading manufacturer of paper cutting machines.

pasting new material over the parts to be eliminated. The company produced its first two-color offset unit in 1921 and the first four-color press in 1931.

Offset lithography was used for about 13% of total printing in 1951. It was used for 30% of the work done in the commercial job field. A market study made by the company showed that this area had grown about 3½% annually over the past 30 years. Since 1919, lithography had experienced a consistent growth of about 7½% per year which meant a doubling in size every ten years. These growth rates were based on physical volume rather than sales dollars. Among the advantages of offset lithography cited in explanation of its growth were sharper images and adaptability to a wide range of papers and to faster printing speeds.

The annual sales volume of the printing and publishing industry was $7 billion in 1951 according to company estimates based on census data. Of this amount, $870,000,000, or about 13%, represented the product of offset lithography. It was estimated that there were about 30,000 commercial job printers who constituted the total potential market for offset lithographic presses and paper cutters.

The commercial job printing establishments ranged in size from one-man, back-room shops to million-dollar companies doing business on a nation-wide scale. They printed direct mail pieces and other advertising material, postcards, stationery, posters, calendars, labels, cartons, catalogues, magazines and other periodicals. The back-room shops were too small to be customers for Harris-Seybold machinery. The company's sales of offset lithographic presses and paper cutters to the commercial job printing market were divided among different sized print shops as follows:

Size of print shop	% sales of offset presses	% sales of paper cutters
Very small shops usually operated by one man	0	0
Small shops with 6 to 20 employees	5–10	15–20
Medium-size shops. This category includes all shops between the small and large classifications. Most of them employed 20 to 100 men. An estimated 7,500 shops had more than 20 employees	30–35	50–60
Very large printers who specialized in large jobs. Group included from 25 to 50 concerns	60	10–15
Paper mills	0	8–10

Most newspaper printing was done on large, made-to-order web letter presses. Some weekly newspaper plants, however, used standard Harris-Seybold lithographic presses for the dual purpose of printing commercial material as well as the local newspaper. This market, while small, was growing.

Only 3% of the dollar sales volume of magazines and periodicals and 10% of the dollar sales volume of books were produced by the offset process, but the company regarded both of these areas as sizable potential markets for future development.

It was estimated that in 1952 there were 2,500 to 3,000 users of offset presses and about 12,000 users of paper cutters in the United States. The company had called on, or corresponded with, 24,000 customers or potential customers in the past. About half of its sales volume came from 400 accounts and 60% came from 1,000 customers.

Seventy-five to 100 companies manufactured machinery for the graphic arts industry, 10 to 12 of them accounting for about 75% of the total production. Among the manufacturers of printing machinery for the commercial job printer, who were Harris-Seybold's principal competitors, American Type Founders of Elizabeth, New Jersey, ranked second to Harris-Seybold in offset lithography. The Miehle Company of Chicago and the Miller Printing Machine Company of Pittsburgh were the two principal companies in letter press and commercial job printing market. However, Harris-Seybold was developing a more complete line of high-speed rotary letter presses and Miehle was getting into offset lithography.

Harris-Seybold's net shipments amounted to $4,377,000 for the fiscal year ending June 30, 1940. They rose to $11,891,000 in 1947 and reached $21,775,000 in 1951. The company looked ahead to a 50% increase in physical volume during the five years ending June, 1956. During this time it planned to broaden its product base and market.

The company had spent about a million dollars a year on engineering and research since World War II. As a result, new or redesigned models of almost every press and paper cutter in its line had been introduced in the postwar period.

One of the product problems which remained to be solved concerned the line of paper drilling machines.

Market Survey for Paper Drilling Machines in Line. The sales manager was trying to determine what marketing action should be taken in regard to the Seybold model HFA multiple spindle hydrodrill. The hydrodrill was an electrohydraulically operated machine which was designed to drill multiple holes in paper stock, drill slots, make open hole slotting, drill and slit, make open hole slits, make round corners, straight corners, and tabs. The machine weighed approximately 2,500 pounds and measured approximately 90 cu. ft. It could drill a maximum thickness of 2 inches and could be operated either single cycle, fully automatically, or stop within an operating cycle.

During the 5-year period from July, 1937, to July, 1942, drilling products accounted for 5.9% of the total sales volume of Seybold Division. Three types of drilling machines were then manufactured: the multiple spindle machine which accounted for a major portion of the drilling machine sales,

the single spindle machine and the paper punching machine, the latter two having been later discontinued. The gross margin for drilling machines (excluding unabsorbed burden) averaged 33.7% and in no year was highe than 41%. Including service parts and hollow drills, the total gross margin averaged 50%. The Seybold Division manufactured approximately 30% to 40% of the company's total products. Average gross margin on all machines ranged between 45% and 55%.

In the postwar period, drill products accounted for 2.8% of the total sales volume of the Seybold Division, compared with 5.9% during the prewar period. In the years 1947 and 1948, 28 HFA hydrodrill machines were shipped. In the fiscal year 1948–1949, 55 were shipped, and July through December, 1949, 8 were shipped, making a total of 91 in the postwar period. The HFA business, however, had been unprofitable in the year and a half period ending in December, 1949. In the fiscal year, 1948–1949, manufacturing costs amounted to 96.6% of gross sales, and during the first half of the fiscal year, 1949–1950, manufacturing costs amounted to 88.9%. The manufacturing costs of optional equipment, which was to be supplied with the HFA machine, was 80% of gross sales and of repairs 50%. The principal supply item used by the HFA machine was hollow drills which sold for $5 each and which had a long profit margin.

Executives felt that increasing manufacturing costs had placed the HFA paper drill in an unfavorable competitive position. The profit margin was already so low that a price reduction appeared inadvisable. However, hollow drills, which were sold as a supply item to owners of these machines as well as owners of competitive drills, had an unusually high profit margin. Executives felt certain that if the company were to discontinue the drilling machine, the hollow drill business would be reduced automatically.

Therefore, the problem facing executives in the spring of 1950 was: Should the company discontinue the manufacture of the paper drill? Or should the company continue the paper drill on the premise that sufficient profit was realized from the sale of hollow drills to carry the lower margin of profit on the machine? Or should the company simplify the paper drill with the objective of reducing manufacturing costs to a more favorable ratio?

In order to gather some information on the basis of which to resolve this problem, the company made a thorough analysis of the company's past sales, costs and expenses on drilling machines and hollow drills, as well as a field research study to gather drill design and drill market data. The object of the field research was (1) to determine the type of multiple spindle paper drill that would best meet the requirements and desires of the industry; and (2) to determine the potential market for paper drilling equipment as well as the potential market for Seybold hollow drills.

In planning for the field survey, the company first sought to obtain relevant background information on the basis of which to formulate a ques-

tionnaire. After a rough draft had been prepared, the company held explanatory interviews with a few carefully selected users of paper equipment in Cleveland, Akron, and Pittsburgh. Subsequent to these interviews, the questionnaire was revised and put in final form, and the company then proceeded to conduct interviews in the metropolitan New York and Chicago areas, using the questions contained in the questionnaire as the basis of interviews.

On the basis of the findings of this survey, the company concluded that the annual market for multiple spindle drills was between 50 and 60 units. The market for the HFA drill, however, was estimated not to exceed 23 units per year. The basis for this was the fact that considerable price resistance had been found in the metropolitan New York area, especially in view of the inroads made by the company's principal competitor who was offering a similar machine at a price $500 to $600 below the company's price of $2,950.

In the course of the interviewing several suggestions were received in regard to the company's design of machine. In the words of one of the company's principal customers in the New York area, the machine was "too much machine to drill three holes." Executives concluded that the New York market was not particularly interested in the versatility of the machine and was interested instead in a simplified machine which would do only drilling, slitting, and slotting. In other areas surveyed, however, the trade was favorably impressed by the versatility of the machine and considerable emphasis was placed on a heavy machine. In the course of conducting these interviews, the company also received various suggestions for design improvement. When asked the question, however, as to whether the company should manufacture more than one model of paper drilling machine, most of the interviewees responded that they would like to see only one model. In the New York market 67% of the people considered the machine overpriced, whereas this was not true in the other areas surveyed. In conducting the survey the company discovered that it had very wide acceptance in the field and most people interviewed considered the Seybold machine superior to any other on the market. However, in New York it was felt that this superiority was not sufficient to warrant the price differential.

It was further discovered that Seybold hollow drills were used almost exclusively by Seybold drill owners and by nearly 50% of the owners of drills manufactured by their competitor.

In answer to a question of preference, 21 out of 23 respondents indicated a preference for Seybold hollow drills. Executives felt that the annual volume of hollow drills would range from 10,000 to 12,000 units or $50,000 to $60,000 a year at the 1950 price of $5 per drill. The executives believed that if the company were able to simplify the machine so as to bring it down to a price of no more than $2,450, it could sell at a volume of 30 to 35 drills per

year. They also believed that if a simplified machine were built, without a price reduction, the market was limited to about 20 machines a year, a volume which was insufficient to make the machine a profitable item. The question which faced the company was whether or not it would be possible to build a machine to sell at $2,450 at a manufacturing cost to gross sales ratio of 75%. The manufacturing department felt that such a cost ratio would be possible if the company could manufacture the machines in lots of 15 with at least 2 lots a year.

In trying to gauge the competitive position of the company, 12 owners of drills manufactured by its chief competitor were interviewed. Of these, 8 were satisfied and 4 dissatisfied. However, among the 8 satisfied owners, 4 stated directly or impliedly that they preferred the Seybold drill to the competitive drill. In addition, 3 HFA owners said they investigated the competitive drill thoroughly before buying the Seybold drill and these people were not impressed by the competitive machine. The company was aware, however, of the fact that the other company had made several improvements in its machine and, as a result, it was becoming increasingly acceptable. There were two other competitors in the field but these were small concerns and considered relatively unimportant.

In analyzing the hollow drill business, the company discovered that an average of 2.2 sales were made each year per customer and that an average of 11.3 drills were sold per sale. This meant that approximately 25 drills were sold annually to each customer. In the year 1945–1946, an average of 53 drills per customer was recorded. The executives believed, however, that this figure was abnormally high because paper hollow drills had been in short supply throughout the war. The company was aware of the fact that Seybold drills would not fit certain competitive heads and it was possible that its chief competitor had altered the design of its machine to prevent the use of Seybold drills in its machines. In making its survey in New York, the company had heard that its chief competitor had improved its hollow drill so that it now came up to the standard of the Seybold drill and it was also rumored that the competitive drill was 25 cents cheaper than the Seybold drill.

On the basis of the information gathered in the survey and the analysis of the company's sales, the sales manager felt that he had to decide whether or not the company should continue with its present model of HFA machine; if not, whether the company should discontinue manufacturing a drill machine altogether, or whether it should simplify the machine and thus enable it to lower its price.

The questionnaire in its final form contained certain questions relating to the company, men interviewed, type of plant and drilling equipment owned, and volume of work done as well as questions of opinion and intention. The results are summarized in Exhibit 1.

Exhibit 1. Harris-Seybold Company

1. Has the volume of paper drilling, slitting and slotting, etc., increased in the past twelve months?

TABLE I

	Number of replies (base)	Has the volume of apper drilling, slitting, slotting, tabbing, etc., increased in the past year?			
		Yes	%	No	%
New York City	9	6	67	3	33
Chicago	11	5	45	6	55
Pitt.-Cleve.-Akron	11	9	82	2	18
Total . .	31	20	65	11	35

2. Do you think the volume of paper drilling, slitting, and slotting, etc , will increase during the next two to three years?

TABLE II

	Number of replies (base)	Believe that the volume of paper drilling, slitting, slotting, tabbing, etc., will increase in the next 2–3 years			
		Yes	%	No	%
New York City	6	6	100		
Chicago	7	5	71	2	29
Pitt.-Cleve.-Akron	8	8	100		
Total	21	19	90	2	10

1. Is your equipment adequate for your needs?
2. Would you consider replacing your present equipment with one or more new drills?

TABLE III

	Number of replies (base)	Have adequate equipment		Would consider replacing present equipment with one or more new drills	
		Yes	No	Yes	No
New York City..	15	14	1	1	14
Chicago...	15	13	2	3	12
Pitt.-Cleve.-Akron . .	13	9	4	5	7
Total	43	36	7	9	33

Exhibit 1. Harris-Seybold Company (*Continued*)

Question: If buying a drill, which make would you favor?

TABLE IV

	Number of replies (base)	If buying a new drill would favor					
		Seybold		Lawson		Other	
		#	%	#	%	#	%
New York City	12	4	33	7	58	1	9
Chicago	11	10	91	1	9		
Pitt.-Cleve.-Akron	11	9	82	1	9	1	9
Total	34	23	68	9	26	2	6

Question: Which of the following operations, in addition to round hole drilling, do you think a paper drill should be designed to perform? (1) Round cornering_____; (2) Slitting and slotting_____; (3) Tabbing_____; (4) Other_____.

TABLE V

	Number of replies (base)	Desire machine for drilling only		Desire machine for drilling, slitting and slotting only		Desire a widely versatile paper drill	
		#	%	#	%	#	%
New York City	15	5	33	11	73	4	27
Chicago	15	2	13	9	60	6	40
Pitt.-Cleve.-Akron	10	1	10	1	10	9	90
Total	40	8	20	21	53	19	47

Question: Do you think a paper drill should be designed to operate at constant speed or should it have a variable speed control?

TABLE VI

	Number of replies (base)	Favor a constant speed drill		Favor a variable speed drill	
		#	%	#	%
New York City	14	10	71	4	29
Chicago	16	7	44	9	56
Pitt.-Cleve.-Akron	4	1	25	3	75
Total	34	18	53	16	47

Exhibit 1. HARRIS-SEYBOLD COMPANY (*Continued*)

Question: Which of the following cycle operations do you consider desirable? Single ____; Stop bottom____; Continuous____.

TABLE VII

	Number of replies (base)	Favor a drill designed for single cycle only		Favor a drill designed for single and continuous cycle operation	
		#	%	#	%
New York City	15	13	87	2	13
Chicago	16	13	81	3	19
Pitt.-Cleve.-Akron	3	2	67	1	33
Total	34	28	82	6	18

Question: Do you consider adjustment of the length of the stroke a desirable feature?

TABLE VIII

	Number of replies (base)	Favor adjustment of stroke length		Favor fixed stroke	
		#	%	#	%
New York City	14	2	14	12	86
Chicago	16	8	50	8	50
Pitt.-Cleve.-Akron	3	2	67	1	33
Total	33	12	36	21	64

Question: Do you prefer hydraulic power to direct mechanical power?

TABLE IX

	Number of replies (base)	Prefer hydraulic power		Prefer mechanical power	
		#	%	#	%
New York City	8	6	75	2	25
Chicago	13	12	92	1	8
Pitt.-Cleve.-Akron					
Total	21	18	86	3	14

Exhibit 1. HARRIS-SEYBOLD COMPANY (*Continued*)

Question: Do you prefer vacuum chip removal to conveyor belt or other methods of chip elimination?

TABLE X

	Number of replies (base)	Prefer vacuum chip elimination		Prefer conveyor belt elimination	
		#	%	#	%
New York City	12	8	75	4	25
Chicago	14	11	79	3	21
Pitt.-Cleve.-Akron					
Total	26	19	73	7	26

Questions: (1) Do you consider the heavy-weight construction of the Seybold drill essential? (2) Would you prefer a lighter drill which would turn out quality work?

TABLE XI

	Number of replies (base)	Consider heavy-weight construction of HFA desirable			
		Yes	%	No	%
New York City	15	5	33	10	67
Chicago	16	12	75	4	25
Pitt.-Cleve.-Akron	10	9	90	1	10
Total	41	26	63	15	37

TABLE XII

	Number of replies (base)	Would prefer a drill lighter than the HFA but still do quality work			
		Yes	%	No	%
New York City	14	11	79	3	21
Chicago	14	5	36	9	64
Pitt.-Cleve.-Akron	10	1	10	9	90
Total	38	17	45	21	55

Exhibit 1. Harris-Seybold Company (*Continued*)

Question: Would you suggest that the Harris-Seybold Company manufacture two models of paper drills—the current model with all its present features and a modified version of this drill?

TABLE XIII

	Number of replies (base)	Manufacture two models: the HFA and a modified model		Manufacture one model			
				Current model		Modified version of current model	
		#	%	#	%	#	%
New York City	10	2	20	1	10	7	70
Chicago	13	4	31	6	46	3	23
Pitt.-Cleve.-Akron	6	1	17	4	66	1	17
Total	29	7	24	11	38	11	38

1. Considering the nature of the machine, do you think that the Seybold drill and the special attachments available for it are priced correctly?

TABLE XIV

	Number of replies (base)	Consider price of HFA and special attachments in line with prevailing equipment prices			
		Yes	%	No	%
New York City	12	4	33	8	67
Chicago	14	11	79	3	21
Pitt.-Cleve.-Akron	10	9	90	1	10
Total	36	24	67	12	33

2. Would you invest this sum of money in a paper drill?

TABLE XV

	Number of replies (base)	Would invest price of HFA in a paper drill			
		Yes	%	No	%
New York City	12	4	33	8	67
Chicago	15	11	73	4	27
Pitt.-Cleve.-Akron	11	8	73	3	27
Total	38	23	61	15	39

Exhibit 1. HARRIS-SEYBOLD COMPANY (*Continued*)

TABLE XVI

	Number of replies (base)	Owners of multiple spindle drills						Make of hollow drills used					
		Seybold		Lawson		Other		Seybold		Lawson		Other	
		#	%	#	%	#	%	#	%	#	%	#	%
New York City	18	12	67	6	33			14	78	4	22		
Chicago	17	12	70	2	12	3	18	13	76	1	6	3	18
Pitt.-Cleve.	10	5	50	3	30	2	20	7	70	1	10	2	20
Total	45	29	64	11	24	5	12	34	76	6	13	5	11

TABLE XVII

	Number of replies (base)	Owners of multiple spindle drills						Lawson owners using Seybold drills		Seybold owners using Lawson drills	
		Seybold		Lawson		Other					
		#	%	#	%	#	%	#	%	#	%
New York City	18	12	67	6	33			2	33	1	9
Chicago	17	12	70	2	12	3	18	1	50		
Pitt.-Cleve.	10	5	50	3	30	2	20	2	66		
Total	45	29	64	11	24	5	12	5	45	1	3

Situation in 1952. The HFA multiple spindle drill still was in the Harris-Seybold Company's product line in the summer of 1952 and continued to present a problem to executives. The only change that had been made in the past two years was an increase in price of $1,025, effective in June, 1950.

While the 1950 market study had indicated that the demand in the trade was for a machine of simplified design and function at a lower price, the company considered it inadvisable to pile up engineering redesign costs for such a low margin line, particularly in the face of the inflationary trend which followed the outbreak of the Korean war.

A cost analysis submitted in July, 1951, showed that the HFA drill and related lines still were barely breaking even despite the price increase. At the same time, however, the line's contribution to general overhead had averaged about $70,000 per year. Sales and profit data for the fiscal years ending in June of 1949, 1950, and 1951 are given in Exhibit 2.

Exhibit 2. HARRIS-SEYBOLD COMPANY. HFA Drilling Machines and Optional Equipment, Parts and Hollow Drills. Summary of Shipments and Cost of Shipments for Three Years. (Fiscal Years Ending in June)

	1951		1950		1949	
		% cost to shipments		% cost to shipments		% cost to shipments
Gross shipments:						
Units: HFA	25		19		54	
Dollars:						
HFA and optional equipment	$103,062		$ 71,302		$176,203	
Drilling machine repair parts	64,411		41,430		52,094	
Hollow drills	103,770		55,741		74,405	
Total.	$271,243		$168,473		$302,702	
Cost of shipment:						
HFA and optional equipment	$ 92,119	89 4	$ 64,923	91 1	$160,511	91 1
Drilling machine repair parts	44,638	69 3	22,632	54.6	24,272	51 0
Hollow drills	27,159	26 2	14,397	25.8	16,661	22 4
Total	$163,916	60.4	$101,952	60.5	$201,444	66 5
Seybold Div. Mfg. overhead variance *	27,124	10.0	14,826	8.8	23,308	7.7
Cost incl. variance	$191,040	70.4	$116,778	69 3	$224,752	74 2
Manufacturing gross margin	80,203	29 6	51,695	30 7	77,950	25 8

* Seybold average percentage variance applied to total HFA and related items shipments for estimated variance.

One executive who favored retaining the HFA line believed that the latter probably would continue to contribute to company overhead and, if properly managed and developed, might make a small contribution to profits. He believed that a potential market for the line existed which would be worth developing when normal marketing conditions returned. In addition, the HFA drill helped foster the profitable hollow drill business. He also pointed out that the HFA line helped provide good contacts in the bindery field which the company regarded as a desirable area for future expansion. The executive believed that service obligations on the drill would continue regardless of whether the HFA line were retained.

If the HFA drill were discontinued, productive facilities and 8,500 man-hours per year, which could be used in the more profitable press and cutter manufacturing, would be released.

CASES IN BRIEF

1. A manufacturing jeweler, located in New York, had developed a considerable volume of business in medium- and low-priced jewelry, which he had distributed direct to the local trade. The company had never done any advertising, except through trade journals and, consequently, it was unknown except to retailers and wholesalers in jewelry circles. It was proposed that the company add to its medium- and low-price line a small line of pearl necklaces of high quality, selling from $50 to $300. These pearl necklaces were to be advertised extensively, and emphasis was to be placed upon quality The media used were to be those appealing to high-class buyers. The sales manager, who advocated the addition of this line, asserted that advertisement of these high-grade pearls would give the company's line of jewelry a prestige which it did not then possess; furthermore, that, whether the sale of pearl necklaces was in itself profitable or not, the advantages would be reflected in greater sales of the other lines of the company.

As a member of the board of directors, would you have approved the addition of this line and the advertising appropriation necessary?

2. The H. K. Porter Company, a long-time manufacturer of switching locomotives, had arrived at virtual bankruptcy in 1939. At that time, Mr. Thomas Mellon Evans of the banking family, which was a major holder of defaulted bonds, was named president. Until 1945 the Porter company continued to make small switching engines in both steam and Diesel, so Mr. Evans asserted. "However, after a few years it became more than ever apparent that competition was too difficult if a company remained small. In searching for new products to manufacture to take the place of the dying locomotive business, we came to the conclusion that one of the quickest and probably the most economical way was to add new products by the acquisition of good going businesses."

Are marketing economies of consequence likely to be realized from such diversification? If so, what are they?

3. A manufacturer of adding and bookkeeping machines was wondering whether or not to revise its product development procedure. It divided new product ideas into two principal categories. The first major projects included items which were completely different from the company's present line and which required fundamental changes in production, engineering, and marketing. These ideas usually originated at top levels and investigation of these products was later delegated to the market research division. The other category was the improvement of existing products sometimes forced upon the company by competitive conditions in the industry.

The market research division received periodic reports from the field and lost-business reports on which the salesmen were instructed to determine whenever possible the reasons for failure to get business. These reports usually prompted investigation by the sales promotion department to ascertain whether a development or product improvement was in order.

Most requests for such developments came from the sales division. If a request came through, it was given to the sales promotion manager to determine whether or not to pass it along. If he thought the idea good, he discussed the problem with the general sales manager. Then the idea was taken to the market research director for the first time and serious consideration requested.

All further study now became the responsibility of the market research director. Discussion as to engineering feasibility took place immediately and research was to be undertaken only if a reasonable amount of business would result from

successful development. The proposal was then referred to the engineering department which made estimates of the cost of design, experimental parts, model assembly, and production drawings to arrive at estimated cost of total engineering. Once the information was complete, the form was returned to the market research division which determined the price at which the machine could be sold and whether or not the price would be reasonable to the market.

Upon finding that the project was reasonable and feasible from the marketing standpoint and upon receipt of the completed form from the manufacturing activity, the market research division so reported to the general sales manager and to the vice president in charge of marketing. If they were in accord with the report, the final reports were sent to the president for his approval for the beginning of the active engineering development of the project.

Was this program likely to be successful in promoting product development?

4. A smaller manufacturer of gas stoves had been seriously concerned with the tendency of very large manufacturers to go into collateral or even quite different lines of manufacture, either because they had excess capacity, because of war restrictions, or because they had capital which might be used for the purpose of embarking on new lines of development. It was rumored at the close of the war that five or six larger corporations planned to manufacture stoves in addition to the sizable number already in the field. One executive pointed out that the stove manufacturing industry had always been highly competitive, that inefficient plants were constantly being crowded out, but that competition had been on an equitable basis and a small manufacturer staked his ingenuity, his close supervision, and his ability to cater to the local market against his competitors' advertising and prestige.

How should such potential competition be met?

Was this type of competition in the public interest?

5. A manufacturer of printing presses and typesetting equipment found himself at the close of the war with a very substantial increased capacity because, at the urging of war procurement officials, the company had diverted its management and technical skills and production facilities to produce war products with such success that capacity as well as employment had been increased more than 50%. Desiring to utilize this capacity which was among the most efficient equipment of all the company's plants, the executives of the company appointed a man to develop a temporary department for the purpose of finding new products which might be manufactured to utilize this plant. The head of this department is wondering whether the company should attempt to develop products from scratch in its own laboratories or should endeavor to buy smaller companies already established whose products might seem to fit into its equipment and facilities.

What would you advise?

6. One of the independent motor car companies, shortly after the close of World War II, announced a merchandising policy which was said to reflect progressive ideas of its management. The policy which it proposed was to manufacture and market utility vehicles which would neither be fully in style or out of style, including a station wagon, sedan, and a ¾ ton truck. Certain new utility features were to be added such as individual wheel suspension applied to all four wheels, two-door construction with seating for three in front and two in back, small economical six-cylinder engines, undercutting of front seat to provide maximum room in the rear, and extra-large doors. The company also proposed the production of a two-door coupe, and both sedan and coupe were to be provided with the alternative of a four-cylinder engine.

Is such a policy likely to attract the volume of sales necessary for economical

production? If so, under what conditions? Discuss.

7. A food specialty company executive claims that the most important part of a product development, with the possible exception of research, is that of testing. He states that tests are made in the laboratory, then submitted to practical production men for determining whether or not it is practical to make the product. The third testing group is the company's group of executives. Since these three groups are internal, this executive intended to choose a consumer jury for each product from the several thousand names the company secured from advertising and requests for consumer educational work, choosing a jury of perhaps 200 persons from the various parts of the United States. To this jury, samples of the new product would be sent and members would be asked to try it out and to report frankly their opinions as to the merit of the product.

Should the proposal be adopted?

8. Should a very large user of wire for the making of motors buy its wire already enameled or should it do its own enameling? What considerations are involved?

9. How should the results of a product development program be measured: by share of the market secured; profitability of the product; or other measures?

10. The president of a petroleum company suggests that a formula be used for the measurement of research which is essentially a ratio of estimated return multiplied by the probability of success divided by the estimated research expenditure.

Would this formula assist the president in making direct decisions on product development?

B. STYLE AND DESIGN POLICY

Suppliers of both consumers' and producers' goods have become steadily more concerned with product design. Technological advances, growth of competition, pressure for lower costs and better products have focused attention upon design and redesign of equipment, material, and supplies for producers. Likewise, the coming of more normal markets in the postwar period has restored and even enhanced the emphasis upon style and design in the products consumers buy. The disappearance of commodity shortages and the reappearance of stiff competition in many classes of products which have enjoyed sellers' markets have brought back the demand for better design, for style and fashion, a demand which had been growing rapidly in the two decades prior to World War II. In the years following World War I, manufacturers in many lines discovered that the goods which people had bought in satisfactory volume before the war were no longer acceptable to the public. In his dissatisfaction with products, the consumer began, among other things, to emphasize the desirability of better design. This emphasis upon design of consumer products increased and so influenced standards that manufacturers and advertisers looked to design and redesign to give them additional selling points for products whose sales had started to decline. Gradually museum directors, artists, designers, and others interested in better designed products joined with manufacturers and retailers in this new emphasis upon design and upon characteristics of color harmony, fitness,

and simplicity. Relatively few manufacturers, however, have approached the problem of good design in a manner calculated to bring about satisfactory results either from their own viewpoint or from the viewpoint of the consumer. Design in consumer goods refers particularly to outward appearance, although that appearance may sometimes be achieved only by substantial changes in the internal design of the product itself. Only in so far as design arises from the requirement of fitness will the utility and beauty of the product be enhanced. In industrial goods, design from the viewpoint of utility only has consistently played a large part, but even in this field, the tendency has been toward design in terms of both utility and improved appearance.

Obtaining satisfactory designers or stylists for product lines involves problems of policy, organization, and method. Questions of policy which should be answered before turning products over to designers require decisions as to markets to which products are to be sold and as to price class within which products are to be designed, together with information as to buyers' characteristics, wants, and behavior. Specific designs may be developed depending upon the industry and the particular company either by members of the company, such as executives and other nonspecialized personnel, or by employee designers, design departments, or engineering departments. In addition, external sources of design may be tapped, among which might be mentioned suppliers of materials, dealers, customers, while consulting firms, consulting designers, free-lance designers may be utilized in the areas of industry in which they are available. Many firms which employ their own designers or design departments find it desirable, indeed necessary, to utilize outside sources as a means of expanding the range and flow of design ideas. The task of the executive is not finished, however, whenever the responsibility for proposing designs has been assigned. There still remains the final problem of choice, adaptation of design to the practical limitations of cost, price lines, and distributive requirements, as well as the practical problem of timing so that designs filled by a design specialist shall not be too much ahead of market demands or insufficiently up to date to create favorable impressions upon prospective buyers. Apparently design, while secondary, seems to have a growing appeal in the industrial field as well. Improvements in line, form, and color have been increasingly used to add to the attractiveness of producers' goods, from the viewpoint of working surroundings, pride in working conditions, and efficiency of workers.

Industrial goods producers have thus not escaped the necessity of continuous study of design. Since purchasers of such products usually act more logically than many purchasers of consumer products, buyers' impressions of outward appearance have not assumed as great importance in design thinking as in producers' goods. Attention has been devoted primarily to

intrinsic design to secure better performance, lower costs, or product superiority.

Intrinsic design policies fall roughly into three major classes, although the lines are not distinct:

1. Design problems in developing completely new products from the idea stage to production of a salesman's offering. Here the potential market and its needs and desires furnish a more or less restrictive framework within which design takes place. Restrictions may affect size of the product, amount to be spent for development or selling, and price limitations.
2. Improvements in established products which may be made at regular or irregular intervals to keep the product line reasonably current in view and in line with advancing technical knowledge and the skills and manufacturing and offerings of competitors. After a time such minor changes, which involve usually only more superficial aspects of the product, result in a patchwork of design improvements which may in total gradually become unacceptable to the market.
3. Lastly, complete redesign of an established product to make an essentially new product for the same general use. Such redesign may involve years of efforts and millions of dollars of expenditures. In most cases such design of a complete new product is at long intervals if competitive forces do not compel otherwise. But dramatic new discoveries and materials or processes, or important improvement in competitors' products may require such complete redesign at more frequent intervals. Such a design project may constitute a defensive as well as offensive measure in an effort to maintain market position.

The cycle of complete redesign varies widely from a few months in some cases to 20 years or more in some industrial goods. The longer periods occur in those industries where the basic changes in fundamental factors have occurred, such as the change from steam to Diesel in locomotives, from low- to high-compression engines in automobiles, from simple electrical machines to electronics in the business equipment field.

Style Policy. A manufacturer or dealer concerned with a product susceptible to the influence of fashion or mode encounters many difficult problems in the determination of style policy. Nystrom's distinction between style and fashion will be helpful:

> *Style* is a characteristic or distinctive mode or method of expression, presentation or conception in the field of some art. Thus we may have a style of dress, a style of interior decoration, a style of conversation, a style of golf playing, a style of penmanship, as well as styles of architecture, sculpture, painting, literature, drama, music and philosophy.[1]

[1] Paul H. Nystrom, *Economics of Fashion* (New York, The Ronald Press Company, 1928), p. 3.

> *Fashion* is nothing more or less than the prevailing style at any given time. Styles constantly change, some rapidly, some slowly. Whenever a style is followed or accepted, it is the fashion. Thus every important style has at one time or another been the fashion. It may even have had fashion revivals, but a style is still a style even if it is not in fashion. There are countless styles, but there can of necessity be but a limited number of fashions.[2]

Design, from the point of view of merchandising of consumer goods, refers to the application of line or form to a product in order to achieve fitness, proportion and beauty, and movement of line. It is obvious that there may be good design in any one of a number of different styles. Were that not the case, good design could not conform to the requirements of fitness. In furniture, one may have good design in Eighteenth Century American, Modernistic, Louis XV, Jacobean, and other styles. Good design in silverware may characterize widely different styles.

The first problem which the manufacturer must face is the extent to which he will attempt to follow style trends. If he follows them closely, he assumes large risks. There are large gains to be made, and such gains have been made in the past, from the successful anticipation of popular styles; on the other hand, there are many records of losses due to the failure to gauge properly the nature and extent of the demand for particular styles. The great risk for the manufacturer of style goods arises from the fact that styles must often be prepared and launched before the public has definitely registered its approval or disapproval. The difficulty of forecasting style trends varies directly with the length of time required for manufacture and distribution of a product. If a manufacturer does not choose to follow fashion trends, he may choose some particular style of product and continuously manufacture that. His success or failure will depend upon the continuation of demand for that style; for instance, for many years the manufacturer of furniture could safely anticipate a demand for early American styles. No one knows whether that demand will continue indefinitely.

Rapidly changing styles and fashions undoubtedly increase manufacturing costs and risks as compared with slow and infrequent change of product. Selling costs and the risks assumed by all distributors are also increased.

Every dealer, as well as every manufacturer, must consider the possibility of change in style. He must provide for the clearing of stocks at frequent intervals, even at reduced prices, in order not to lose excessively on outmoded goods. Because of the risks in carrying stocks of style goods, direct distribution methods are likely to be favored, yet one cannot declare that the presence of the style element tends to exclude the wholesaler. In the garment industry and in the furniture field wholesalers have developed primarily because each manufacturer is compelled to specialize, and no one manufacturer could offer a style line sufficiently complete for retail trade.

[2] *Ibid.*, p. 4.

Style and fashion seem to follow certain well-developed cycles. There are, first, the creation and offering of new fashions by prominent designers and producers. A few of the fashions offered may be adopted by a select clientele; shortly thereafter they may be copied, and if the first copies prove popular, even cheaper copies may be produced. Popularization is followed, sometimes quickly, sometimes slowly, by extinction. This process is particularly true of dress. Original design, imitation, and popularization formerly covered a period of several years, but at the present time instances may be cited where the process covers only a few weeks, or even only a few days.

Not to be confused with fashion are the rise, popularity, and decline of articles of fad. A fad shows many of the characteristics of style development, but its life is likely to be shorter and it may not be succeeded immediately by some other fad. Fashions, on the other hand, are always with us. The decline of one fashion is accompanied by the rise of others.

The problem of the sales manager with respect to style and fashion involves determination as to the particular stage in a cycle in which he expects to carry on business; whether he is to make highly styled, expensive goods, sold in relatively small volume, or less expensive goods along the same style lines of more expensive goods. Whatever stage he chooses, he must be neither too early nor too late. A style too advanced does not secure acceptance; to present a style too late is merely inviting a loss through unsold goods. The forecasting of styles offers difficulties which have so far not been satisfactorily solved. An intelligent firm manufacturing style goods collects style information from as many sources as it can, assigning responsibility for making decisions to a person or group of persons whose judgment upon such matters has by experience been shown to be fairly correct.

6. CROMWELL COMPANY. Design Policy

The Cromwell Company, located in an eastern city, manufactured a complete line of popular-price home and automobile radio receiving sets. Distribution was effected through approximately 100 exclusive distributors and 20,000 nonexclusive dealers. Although the company was one of the larger units in the radio field, it differed from other manufacturers in that it had no professional cabinet designer on its staff and did not attempt to create any uniformity in the design of its home models. Although some competitors viewed this policy with skepticism, the Cromwell Company believed it to be sound.

The common procedure for the larger radio manufacturers was to employ a well-known artist to design their line of cabinets for a complete selling season, major style changes normally being made once each year. The style of cabinet design ultimately chosen was in most instances applied to all models so that uniformity and singleness of feeling could be evidenced throughout the entire line, regardless of whether the model was expensive

or inexpensive, large or small, or whether it was console, chair-side, table, or combination radio-phonograph type. The continuity of a single style throughout a line was thought to add a degree of refinement and distinction which could be associated only with a particular company's models. Moreover, if a company were able to advertise that its radio line was designed by one of the foremost designers in the country, mentioning his name, it was believed that a definite selling advantage would result. Not only was the appeal of expensive models increased in the eyes of those discriminating persons most interested in purchasing a radio designed by an eminent artist, but the appeal of the less expensive models was also believed increased because the same style of design was available in these sets.

The Cromwell Company differed from its competitors in that no attempt was made to obtain uniformity in the design of its radio cabinets. Some models gave a distinct impression of refinement, while others were designed to give an appearance of showiness or flashiness, or to convey somewhat falsely the idea of expensiveness. The lack of design unity was entirely intentional, for in this manner the executives believed that the company could reach a much wider market by appealing to people of all interests. One executive stated that this policy would also lessen risks to a large extent since, if several designs failed to win favorable acceptance among prospective customers, sales might be obtained on the many other models whose design and appearance proved satisfactory. For a company to have but a single design motif throughout the entire line would make it exceedingly necessary that the style succeed, he commented, and success was not assured even though the line had been styled by a prominent designer.

Before selecting the large number of designs to be included in a new season's line, the Cromwell executives made a comprehensive analysis of sales during current and past years to determine which styles had been most successful. These findings were supplemented by facts and opinions obtained from not less than 500 representative dealers with whom the executives had held interviews during several preceding months. Using this information as a basis for judgment, the executives then spent several months reviewing the designs prepared by 20 manufacturers from whom the company purchased its radio cabinets. Each of these concerns employed its own designer. From a survey of all available styles, the executives then selected those designs which they believed would most probably meet the demand of each section of the wide market to which the company catered.

Competitors believed that the Cromwell Company was employing a design policy which was questionable and which would not enhance the company's prestige.

Did the Cromwell Company follow a sound policy in regard to the design of its radio cabinets?

7. LAMINATED PLASTICS COMPANY

The Laminated Plastics Company located in Pittsburgh, Pennsylvania, produced plastic laminates; that is, plastic bonded textiles or paper with decorative designs to be used for kitchen counters, tables, and furniture. The laminated material was sold through wholesale distributors and direct to manufacturers of dinette tables, furniture, and desks. A standard line of about 75 patterns and colors was offered; additional custom designs were produced for specific manufacturers on a contract basis. The sales organization consisted of 20 men who solicited national organizations of distributors and three men who sold direct to large manufacturers. Two industrial designers were engaged in producing or procuring new designs and maintaining touch with color preference of the consumer and manufacturer market.

The sales department had requested that it be furnished with design ideas to be presented to a limited number of dinette and furniture manufacturers as a means of obtaining their contracts for the next year on a style basis. Actual samples of each pattern and several color combinations were requested and each pattern idea was to be in a printed folder suitably labelled.

In order to comply with this request, the designers undertook to tap several sources of design. Independent free-lance designers were visited and several promising designs were purchased. Cooperative arrangements were made with some of the complementary manufacturers of plastics products to permit use of some of their pattern ideas. Approximately 100 design ideas were assembled and submitted to a screening committee consisting of the direct account salesman, two designers, sales manager, marketing manager, and product development manager. Discussion and voting narrowed the designs to 15 of these ideas. The finished work for these 15 designs was then produced; color selection was made by consultation with an independent color stylist on a consulting basis. Colors were compared also with sales records and by reference to home furnishings magazines.

This plan as proposed was not accepted without discussion. One executive believed that the plan of taking a wide range of hand-rendered design ideas to manufacturers for their preliminary choice was not wise. An alternative was the suggestion that the company work with furniture manufacturers' own designers in producing what they had designed. A third proposed that the company make no designs for manufacturers except upon order and request. Lastly, a simpler suggestion was that of merely taking the designs which were made available by paper manufacturers since the paper for laminates was purchased from sources which offered a range of designs.

What should have been done?

8. CHROMA CORD COMPANY

A small manufacturer of wiring devices and cord sets was trying, in the summer of 1955, to decide whether or not to expand his line of cord sets and wiring devices to include color rather than the conventional brown and ivory. Certain competitors had recently offered the product in pink, blue, green, and gray, but company executives had to determine whether the customer actually needed, wanted, and would buy the colored items. The wiring devices manufacturers, such as the Chroma company, generally made and sold a line of products including switches, outlets, wall plates, fuses, cord sets, fluorescent accessories, remote control devices, and heating wire. The line of several hundred different items was sold to electrical distributors who, in turn, sold to electrical contractors for new and remodeled buildings of all types. Consumer products were sold through hardware distributors, variety chain stores, drug distributors, automotive distributors, rack jobbers, grocery chains, and others. It was in these markets that color was the greatest problem.

The Chroma Cord Company was concerned about the addition of color to its cord sets because it believed it would increase inventory requirements, on the part of both the manufacturer and the wholesale distributors and retailers. Furthermore, many consumer products had to be prepriced; i.e., retail price tags had to be affixed to the merchandise at the factory prior to shipment. This prepricing was made necessary by the change to self-service operation by the variety chains and supermarkets. Since other retailers wanted items unpriced, the line of consumer items might be doubled without any increase in the over-all business. The company felt if it now became necessary to carry six colors instead of two, the multiplication of inventory items would aggravate the inventory situation.

Consumer preference for color was hard to determine in advance. Certainly there had been an enormous increase in the emphasis of color in the automobile industry, appliance industry, and other fields. There had been some demand from retailers and others that the Chroma company should offer colored sets or lose business. However, company executives were not convinced that a real demand existed. It was argued on the basis of some earlier experience that the home owner would not purchase more items because of color. He had continued to buy the standard brown and ivory sets rather than colors when offered previously. Again, the inventory control problem and investment problem increased in proportion to the colors added and tended to make retailers dissatisfied with the rate of turnover. Color cost more to manufacture because of lower volume. Colored molding compounds were more expensive and machines had to be cleaned between runs of different colors. Customers usually were unwilling to pay higher prices for colored products. Furthermore, objections were encountered because the

colors themselves were never precisely what the customer wanted. Exact matches were unlikely to be achieved.

Since the Chroma Cord Company executives had only their own opinions and limited experience with color, they sought methods of finding out the facts as to customer wants upon which they could rest their conclusions more securely. Three proposals were made: First, a survey could be made at consumer level. Second, customers' opinions could be learned on the basis of tests and in this way the movement of a product could be checked to learn consumer and dealer reactions. The third possible method proposed was to conduct a marketing survey on the immediate customer level, such as hardware distributors and chain store buyers.

What were the relative merits of the methods of getting desirable designs?

What was required to get a conclusive answer to the Chroma Cord Company's problem?

9. FLEMING MANUFACTURING COMPANY. Methods of Styling and Control of Style Merchandise Inventory

The Fleming Manufacturing Company, located in Cleveland, Ohio, manufactured a complete line of men's, women's, and children's underclothing and sleeping garments designed to sell to the upper middle income group. A sales manager was in charge of all the company's selling operations which were conducted by a force of between 35 and 50 men. The line was sold direct to retail stores including department stores, women's specialty shops, haberdashery, and dry goods stores. To provide adequate sales control, the entire United States area was broken up into seven divisions, each containing a headquarters office in a major city. At present, no stock was carried at the division offices, although during normal periods stocks were carried at Chicago and San Francisco, two headquarters offices. Each division in turn was headed by a divisional sales manager whose duties included, in addition to coordinating the activities of the division, handling the more important retail accounts and calling sales meetings at various intervals to discuss information distributed by the home office. Many activities of the regular salesmen were conducted from the home office, for the sales manager was in direct charge although division managers were forwarded copies of directives for their suggestions and exercised an intermediate authority.

By the fall of 1946, the problem of styling, especially in the ladies' undergarment line, had become particularly complex, and company management was reviewing new ways of maintaining successful style control. A wide variety of fabrics was in use, and many designs and color combinations were becoming increasingly popular. A large demand during the postwar period for new items and increased competition among clothing manufacturers to provide new styles made it essential that those in charge of style and mer-

chandising overcome the difficulties often encountered in design and color selection satisfactory to retail consumers' and facilitate production scheduling to prevent excessive inventories. In addition, executives felt that, with the increasing fashion tempo, the need for a sound preliminary style survey was becoming more and more important.

The merchandising department, which was responsible for the proper styling of the lines, was not under the direction of any one supervising head, but was divided into three divisions each under a merchandising manager. These three men were not directly responsible to the sales manager but did work closely with him in an effort to keep him well informed on all merchandising plans. The first division was responsible for figure control garments, infants' and children's wear; under the manager in charge of this department was a woman stylist. The second division had charge of men's and boys' underwear and, because styles in these particular lines, although important to their popularity, changed more slowly and sometimes remained essentially the same for a period of years, the merchandising manager did his own designing. The third division, under the direction of a Mr. Cartwright, contained the women's and junior miss lingerie which was the highest style line produced by the company. Mr. Cartwright was aided by an assistant merchandising manager and a woman designer. In describing the relative importance of style in the various lines, he emphasized that the styling itself and related problems had to be divided into two categories: (1) the type of item which was highly styled such as those in his division and (2) those with less dynamic style change which might be used for a period of years such as men's wear and infants' shirts and bands.

The company's principal source of style ideas was its group of designers composed of two women stylists and the merchandising manager who acted as his own designer. Mr. Cartwright explained that the designers in turn had their own style contacts and sources of current design information. He pointed out that his assistant in the ladies' lingerie department had a "natural feel for style" and in addition to being well acquainted with what had been done in the trade, knew whether her ideas were original or not and could anticipate trends in undergarment design by watching the trends in outerwear. In this connection she was constantly "shopping" the upper class women's apparel stores getting information on outerwear trends, and then forming her own ideas from this background together with suggestions which she obtained while visiting various fashion organizations. When she first originated styles, they were submitted to Mr. Cartwright and his assistant, underwent preliminary criticism, and those designs which were agreed upon were put into cloth. When the samples were made up, they were again subjected to the merchandising manager's scrutiny, and at this stage any differences of opinion among members of the merchandising and style departments were settled by survey trips.

Survey trips were regarded as the principal method of prechecking a new style or line before placing it on the market. In commenting upon the problem of keeping style up to date, Mr. Cartwright explained that the farther away from the market the company was, the larger the degree of error that might exist in estimating successful styles. Consequently, the company depended primarily on close contact with the trade to maintain knowledge of current popular fashion trends. New products were never put out without the general approval of the major stores to which the company sold. In planning styles for the coming seasons, those concerned with the new designs visited "top flight" fashion stores to sound out their opinions on proposed lines. Fleming executives gave considerable weight to their votes, taking as Mr. Cartwright explained, 75% at their face value and proceeding on the basis of their own judgment in the case of the remaining 25% which were generally borderline decisions. In addition to getting information on style and design from stores on survey trips, the company obtained valuable data on pricing. Generally, stores were very helpful in arriving at a retail price, for if a particular number was a high style item and showed considerable evidence of workmanship, the store might suggest that the garment was underpriced and could sell very easily at a higher price. On the other hand, if a garment was too expensive and did not have a competitive chance with lower-price garments of the same style and workmanship, the stores would be frank in telling the company so. The question of color constituted a vital problem because this one feature could "make or break" a line. Mr. Cartwright emphasized that two or three degrees off-color might mean the difference between success or failure, and that the only way to ensure against failure in this regard was to have a designer with a flair for color. However, as a precaution against any wrong estimates in this direction, merchandising managers were careful to check color selections with stores before introducing them. The sales manager, Mr. Thompson, with whom the merchandising managers worked very closely in laying out seasonal style lines, explained that it was desirable for him to go on these survey trips along with the style personnel, but since this was not always possible, he was represented by some member of the sales staff.

In prechecking new fashion lines, Mr. Cartwright and his design assistants also visited fashion magazines. In contrast to some of the high fashion stores, fashion magazines, however, were not so interested in ideas which would sell as in ideas that were modern enough to build reader interest. Such magazines more or less specialized in designs that relatively few consumers would want or would be able to buy, and it was their purpose to inspire forward ideas in design rather than current selling fashions. Nevertheless, he explained that there was a need for compromise between the suggestions obtained from these two groups.

After the merchandising manager and his style assistants had obtained the

opinions of the trade on their proposed numbers, they returned to the home office and proceeded to set up the coming season's line. It was often the case that the stores' choices did not provide a rounded line with regard to a balanced style and price variety. For instance, survey stores might have selected all undergarments with square necks rather than include a few with round necks, or they might have picked too many centering in one price field. The merchandise manager then had to make various changes in the line such as modifying or improving a trim, removing or adding a little cloth, or putting more or less "workmanship" on the item.

With respect to lines of competing undergarment manufacturers, Mr. Cartwright mentioned that the merchandising department was constantly checking its own designs against competing items and bought samples of these products to keep for comparison. In doing this, merchandising executives had two objectives in mind: to make sure that Fleming had as much if not more style than a similar competitive product in the identical price line and to try not to duplicate a competitor's product. At the same time, merchandise managers compared their items with similar items which were acknowledged to be in a top fashion line; there was no attempt to judge a Fleming number with a similar one of a lower style line. In addition, the company kept many designs on hand from the shops of the highest style outerwear stores, the forerunners of underwear styles.

As an example of the procedure followed in introducing new numbers, Mr. Thompson pointed to the firm's new junior miss line and described the various steps as follows:

1. Merchandising officials first rechecked their own design and style ideas with the market demand through survey trips to make sure that they were offering the correct item at the right price and in the right market.
2. To obtain further assurance of the line's acceptability, they tested it through "laboratory" stores.[1]
3. Merchandise executives then cooperated in reducing the size of the line by eliminating those numbers which had proved, through the initial test, to be less popular.
4. After Fleming had introduced the line on a national scale, the company asked for an inventory in each of the laboratory stores and obtained some suggestions as to consumer reaction by asking store managers for buyers' opinions. This latter information was often obtained by the designer herself while acting as a sales clerk in a store.

[1] Laboratory stores were test outlets used in the introduction of new lines and were selected with the following considerations. Executives felt that numbers which would be acceptable in New York, Chicago, and Los Angeles would go over in almost any locality because these cities were recognized as fashion leaders. Stores in a few smaller cities such as Pittsburgh or Detroit were also added to increase the validity of the "test" sample.

5. Once the success of the new line has been proved, new numbers in the same line might be designed and introduced without any great danger of failure.[2]

The advantage in this type of product introduction, as explained by sales and merchandising executives, lay in the fact that the company was able to work in the field with professional, experienced buyers and could thus obtain immediate consumer reaction. Mr. Thompson added, however, that the ideas advanced by the test stores were not accepted as the last word, but that the firm would often alter a few designs in accordance with its own ideas about fashion trends. By following this procedure, he noted the company not only had the advantage of possessing a good selling tool in the laboratory stores but also was able to come in closer contact with these retail outlets and the consumer. After lines had proved satisfactory in test stores, a sales meeting was called at the home office in which salesmen and division managers were given promotional information. Mr. Thompson stressed the fact that, when these lines were shown at the meeting, they carried the authority of not only the buyers' acceptance, but also the company designer and the trial market acceptance.

For many years prior to the war, when the firm had depended on the sales organization as an important source of style ideas, one of the greatest uses of such fashion information came in a semiannual meeting of branch managers. Prior to such meetings, all suggestions of managers and salesmen in their territories had been sent in and classified according to line and style. However, under the company's new policy with regard to sales meetings, rather than groups for discussing possible designs and advisability of dropping old lines managers and salesmen now assembled only for the purpose of learning all the information necessary to put a line on the market successfully.

A. In the late summer of 1946, the company had no problem with respect to obsolete inventories or out-of-style items because of the tremendous demand for underclothing of all types. At this time, it was even possible for branches to sell broken lots which were short on popular styles and important sizes. However, in looking forward to conditions which company executives believed inevitable after postwar inventories had been filled, Mr. Cartwright pointed out that he could see three principal problems connected with style and inventory control which management had to be constantly thinking about. The biggest problem was the decision involved in determining the number of items in a particular line to be produced and the size of the line itself. The company was now under terrific pressure from buyers of different department stores to manufacture many different styles in the same line so

[2] Mr. Thompson added that, in the case of the junior miss line, the company had been very fortunate for all the colors which had been selected were successful and only one size had to be corrected.

that they would have a larger selection when buying. In addition, there was the added problem of holding down the company's own designers for, as was to be expected, they were in favor of as many styles as they wanted to develop. The merchandising manager was thus constantly confronted with these internal and external pressures, but at the same time had to guard against the possibility of reducing a particular line to the point where it was too small.

A second most important problem involved the decision as to when to drop a particular line. Mr. Cartwright explained that the ideal time to drop a line occurred at that point where sales were about to descend rapidly, but he added that executives were only venturing a guess when they predicted that a line would soon go out of style. Some numbers might run for only one or two seasons, while others might still be selling after a period of years. Two serious results might arise from prematurely dropping a line: (1) sales volume would be lost and (2) the production department would have the job of teaching workers how to set up lines to produce another style. Also entering into this problem was the question of judging the length of a style cycle so that the company would have just the right amount of stock in the department to hold it over during the period a new line was being planned. At present, decisions on abandoning certain lines were made by the merchandising managers themselves, although controversial cases were discussed with sales and field representatives. However, a new style line had to be available to take the place of one that was dropped. In some instances, the new style would not be an exact substitute, for it might differ in its appeal to age or style groups. The firm's objective was therefore to attempt to compromise and put out a line that would satisfy the majority of age groups, not too high fashioned and yet not too conservative. The question of estimating the effective duration of a particular style was also the crux of the markdown problem, for if it were overestimated, a large reduction in price, perhaps as much as 50%, might have to be made to sell out the remaining stock. The last important problem which Mr. Cartwright could foresee was the continued rechecking with the market so that correct production estimates might be made and lines placed in production before any sales were made. He pointed out that the company might sell half a million dollars' worth of a particular line when the plant was set up to produce only $100,000.

B. When the demand in the soft goods industry began to slacken in 1947 and 1948, Fleming executives continued to be confronted with the problems already discussed. In addition they began to turn attention toward devising a more orderly procedure for providing that styles and lines would be selected, samples made, and in short, that all the numerous operations required to make lines ready for selling and delivery were performed and completed when retailers were to be shown the new lines and orders were to be taken. A consulting firm was asked to study the situation and in a short

time suggested that a sequence of tasks be set up so that time tables might be worked out and persons responsible for getting jobs done be specifically named. Such tasks as the development of plans for new lines, the procurement of samples for design study, choosing of numbers for each line, making of salesmen's samples, and the setting up of tentative procurement and production plans were to be analyzed and incorporated in the schedules.

Is the proposal a good one?

If so, how should the consultants go about developing the time schedule?

CASES IN BRIEF

1. In recent years official criticisms of automobile designs by national and local associations of automobile owners emphasized several objections. It was said that automobile buyers did not like the unified body fender designs which so many cars employed. They complained that collision damage was usually more expensive than with the former hung-on fenders and repairs were much more costly. Secondly, they objected to the low seats in some cars because the hood was too high in the driver's line of vision for many drivers. Third, curved windshields were more expensive and in case of breakage much more expensive. Fourth, tire changing had been increased in difficulty by concealed wheels.

One of the automobile companies decided that, since these criticisms were apparently widespread, they would design the cars to meet these criticisms and did so. Nevertheless, customers did not buy these cars and the company suffered substantially as a result of the failure of customers to follow up their stated objections by purchasing from those who had tried to meet and overcome these objections.

Why? How could the company have avoided the loss?

2. An electrical appliance company believed there would be a large market for a combination clothes washer and dryer; but there were certain questions which it had to answer before it could begin active work on development. Assuming that the market would be sufficient, the company was concerned with appearance, with what a combination should look like. Preferences were important and had to be considered in order that the company could develop a product which was acceptable in appearance and performance, and could be sold at a price which the public would be willing to pay.

The research team's first model was so large and clumsy that it was unacceptable. The type of agitator cleaning action did not work as well as expected and the tumbling process in drying the clothes was hard on the laundry. The first machine not only dried the laundry but scorched it, a fault which was corrected by the installation of a more sensitive thermostat. The company finally decided that the appearance design should take the form of a unit which would look like a separate washer and dryer. It was decided that there should be a family relationship between the new unit's cabinet, control area, and trim, and those of the separate automatic washer and the separate automatic dryer of current model in order to make it appear that two separate units were working together. There were several other questions which had to be answered as to the location of the door, whether the loading door should be on top or in the front, and the like.

How could the appliance company test the correctness of its design in advance of going into manufacture?

3. During World War II, the management of the American Stove Company of St. Louis converted all its plant and equipment to the manufacture of some

30 different war products and completely discontinued production of gas ranges for domestic use. At the end of the war when many new designs for home appliances were entering the market, company executives shifted their thinking to the best methods of perfecting modern range design. They agreed that, instead of retaining a design consulting firm for the purpose of comparing ideas on modern design, a contest might be the best method of collecting ideas on consumer preference. Accordingly, in the summer of 1945, the decision was made to launch a design contest and the company hoped to determine a specialty design trend as applied to gas ranges.

The contest was announced to the public in November and was directed primarily toward reaching architects and industrial designers, although students, housewives, and others were encouraged to enter. Prizes ranged from $5,000 for first place to several of $500. The company also offered to purchase for $250 any design containing worthwhile suggestions. Prospective contestants were sent an instruction booklet containing a list of rules and a pamphlet describing the history of gas-range development. They also received an architect's specification page showing standard dimensions of existing Magic Chef ranges.

When the contest ended in March of 1946, 500 eligible entries had been received. Designs ranged from very crude scribblings to detailed airbrush sketches. A jury composed of four architects and designers and one home economist chose the winners, a process requiring three eight-hour days.

Executives of the company were very well satisfied with results, which were better than had been anticipated. Designs themselves were immediately patented and were not to be disclosed until the postwar model of the Magic Chef was introduced. Officials were further encouraged by the reaction of dealers and other gas-range distributors. However, they believed the principal advantage of the contest would materialize when the results could be used as a basis for sales promotion and advertising.

Do you approve of contests as a source of product design?

What other sources are available?

4. What is the function of market research experts in attempting to measure consumer reaction?

5. A noted designer said, "It is not only the prerogative but the duty of the designer to supply the client and the public with the elements of taste. We are professionals every bit as trained to our work as lawyers or doctors. The doctor does not call for a market study every time someone has his appendix out or his eyeballs washed."

But another designer held that a mass survey upon type of design only confirmed what the designer knew was good in the first place.

What do you think?

6. A maker of boys' shirts and blouses has been concerned with finding some solution to the so-called sizing problem. Recently a group of seven women members of the United Buyers Association took part in an open forum discussion at a convention of the Boys' Apparel Buyers Association in New York. These women asked for sleeve lengths in boys' shirts, for greater standardization of waist band sizes, for elimination of shrinkage. They also asked for changes in other types of boys' apparel.

How would the adoption of these suggestions affect the manufacturers of shirts and blouses?

7. Does "price lining" in retail stores, whereby various lines of merchandise are bought to sell at predetermined prices, affect the marketing and production policies of manufacturers? What effect does price lining of cheaper silk dresses, $12.95, $16.50, etc., have upon style and design policies of garment manufacturers and fabric producers?

8. The Doane Company had been dissatisfied with the sales of its electrical switch line and decided that it needed to determine whether or not something was wrong with the line itself or whether

other lines accounted for the relatively unsatisfactory sale. In the study of acceptance, it was finally resolved that the assembly had to be determined with reference to dealers, consulting engineers, and electrical contractors, not only for the offered switches in total but also as to particular features. Certain design changes had been proposed and the company wished also to obtain opinions on these. For instance, as to the handle: Engineers wished to determine the merits of plastic or aluminum handles as contrasted with wood. As an incidental part of the study, it was expected that information would be secured as to the effectiveness or noneffectiveness of the company's advertising in terms of the recognition of brand names, etc. It was proposed that about 200 personal interviews should be secured, some in the industrial group, some in the nonindustrial group, with 100 in each category. The nonindustrial group would have dealers, consulting engineers, contractors, and a few electrical inspectors to exert some influence on approval or disapproval of particular switches.

Was this procedure likely to get dependable results?

9. Mr. J. J. Mundy, recently graduated from a middle-western school of business, accepted a position in the product development department of the Beacon Company, a medium-sized manufacturer of major household appliances. He was assigned as a first task in the process of becoming acquainted with the company and its products the problem of studying competitive products as well as the company products and finding some way to present to the executives a means of boiling down the specifications and features of that industry's more than 90 refrigerator models on the market. It was the desire of the refrigerator department particularly to secure information which would enable it to evaluate objectively its own product line in comparison with the prices and features of competitive lines. It was hoped that some method would be found of placing a money value on all special features so as to facilitate comparison and tie together the variety of materials and ideas which would be collected in the progress of the work.

How should the trainee go about accomplishing the task?

10. A manufacturer of men's shoes, producing 1,500 styles, proposed to reduce the number of styles to 100. Few dealers carried more than 100 styles, but dealers in different parts of the country exercised their preferences as to styles, with the result that the number of different types and styles which the company had to produce was very much larger.

What would be the advantages and disadvantages from the viewpoint of retailers and manufacturer in a reduction in the number of styles?

C. BRAND AND TRADE-MARK POLICY

The primary purpose of brands and trade-marks is to furnish a means of identification so that repeat demand may be centered upon a product whose use has resulted in satisfaction and good will. From the viewpoint of the public, identification places definite responsibility for quality, uniformity, and amount upon the person whose name or mark appears on a product or package. From the viewpoint of the manufacturer, identification makes it possible to build up a preference for a product, because of satisfaction given by it or because of the impression created by advertising or other means. Attempts have been made to identify most types of consumer products—even coal, walnuts, and oranges have been subjected to identification processes. Nevertheless, some manufacturers have not been able to solve the difficulty

of marking a product in the form in which it is sold to consumers; on the other hand, meeting the responsibility of identification has sometimes proved embarrassing. The chief social objection to placing of responsibility by identification is the cost incident thereto, a cost which may or may not be offset by the advantages.

The forms of identification commonly used consist of brands and trade-marks, patents and copyrights, although other features of a product—color, finish, odor—have been used, either alone or in conjunction with other means. One of the first problems which a manufacturer of unbranded goods encounters is whether or not to use a brand. His decision will be based partly upon the nature of the product, partly upon the custom of his trade, and partly upon the character of his distribution policy and methods. After decision has been made to use a brand and the difficult problem of selecting a suitable brand name has been settled, brand problems may continue. Shall the same brand be used for different qualities of a product; shall it be used for different products made by the company?

More annoying than these problems, and more difficult, are questions raised by private brands. From the broadest viewpoint, private brands constitute an aspect of the struggle for the control of the retail and consumer markets between manufacturers, wholesalers, and retailers. From the viewpoint of some manufacturers, private brands may be undesirable because they remove from them the control of consumer demand and place it in the hands of the wholesaler or retailer for whom the private brand is made. To other manufacturers, private brand business may be essential to existence. So-called private brands might better be denominated distributor brands. Since some distribution enterprises, particularly chain stores, handle quantities considerably larger than the largest wholesalers, they feel that they must accept responsibility in the eyes of the public for the quality of the goods they sell, even though the goods may be made by another. Furthermore, it may be to the advantage of the larger retailer to build up a demand for brands which he controls, because thereby he is much freer to choose his sources of supply. A so-called private brand may be as justifiable from the social point of view as a manufacturer's brand.

Because the right to use identifying marks must be exclusive if they are to perform their function, many problems arise concerning the types and nature of trade-marks which will receive the protection of the law as well as concerning the rights of sellers and the public in the trade-marks in use. Trade names and marks may have, over a period of years, acquired important, even great, value. It is not surprising, therefore, that a body of law has grown up, based both on common law decisions and on statutory enactments, such as the trade-mark acts of 1905 and 1920 and, more recently, the Lanham Act. No brief statement can do more than indicate that the sales executive may

face legal problems relating to the type of brand or trade-mark he proposes to use, the possibility of prior regional or national use, in addition to other practical problems of registration and establishment of an incontestable right to the use of the mark. Furthermore, if a firm is too successful in developing public familiarity with the trade name, it may become generic whereby the exclusive right to the name may be lost.

Present trade-mark practice is covered primarily by the Lanham Act which was passed in 1946 for the purpose of remedying some of the deficiencies of the earlier acts. The Lanham Act provides that a trade-mark must, with certain exceptions, be registered on application upon the principal register. Those exceptions are not new but were already established law, namely, marks which resemble others already registered and previously used so closely as to deceive purchasers, although concurrent registration of the same trade-mark is proper under certain circumstances; immoral or scandalous trade-marks, deceptively descriptive trade-marks, United States flags, coats of arms, the names, portraits, or signatures of living persons without consent, merely follow earlier practice, having long been excluded.

The registration confers a certificate of right to use for a period of 20 years, although affidavit of continuance of use must be made after 6 years and renewal is possible only upon application and affidavit that the mark is still in use after the 20-year period. Many technical provisions are included, some of which are directed toward making the registered mark incontestable after 5 years. Nevertheless, the exceptions are of such nature that trade-mark law prior to the passage of the act has not been materially changed in this respect.

10. JARVIS SPECIALTY COMPANY

The Jarvis Specialty Company, located in Omaha, Nebraska, was formed in 1946 to manufacture jellies and jams. Its total volume of sales in 1954 was $2,800,000, of which 88% was sold under the private labels of chain stores and large wholesalers and other large buyers; the remaining 12% was under the Jarvis label. The company had established a reputation for high quality of product and for the use of pure selected fruits and other materials.

The jam, jelly, and preserves business was highly competitive, and since processes were relatively simple, the threat of making rather than buying was always present in the case of larger buyers and wholesalers. The margins were low and the business was easily shifted from one maker to another, although each producer had some freight advantages in limited areas. While the freight costs were an important factor, the Jarvis company had an additional advantage for certain potential customers because of the quality of its product.

The Alison Company was a larger wholesaler which had established over a period of 75 years an outstanding position in the wholesale grocery field

in the Middle West. Its position in the grocery field had deteriorated during the depression period, partly as the result of greater attention given to a growing volume of liquor business which had been developed early in the thirties after the prohibition amendment was repealed and partly as the result of inadequate and incompetent executive attention.

For many years the company had operated its own jelly and jam preserving plant and had maintained a sizable business, in part because its many products bore the family brand which had become well known throughout this area. However, the preserving business was losing money, and it came to the attention of Mr. Jarvis that the Alison Company might be willing to sell this portion of its business in order to get rid of the source of loss and also so as to simplify its operations. Negotiations were initiated and an examination of the data submitted indicated that the jam and jelly volume was but little over $1,000,000, although the average size of the accounts which it sold was less than one-half that of the Jarvis company. Alison had no chain store distribution and cost of serving the small accounts was large. Distribution closely paralleled the distribution of wholesale grocers. Two states provided 75% of the business and distribution was spotty in other areas.

Exhibit 1. Comparison of Alison Volume with Jarvis

	Alison	Jarvis
Number of accounts	79	48
Sales volume	$1,000,000+	$2,800,000
Average size of account	10,700	35,500

Although Alison volume was only about half that of Jarvis, its business under its own label was three times that of comparable Jarvis business. This indicated very considerable strength and familiarity with the Alison brand name. Consequently, Mr. Jarvis expressed interest in purchase.

Was Mr. Jarvis's desire to purchase wise?

Would you think an offer by the Alison Company to sell its machinery and equipment at appraised fair depreciated value, plus $25,000 for good will, should be accepted?

11. TRASK COMPANY. Brands and Brand Preferences in the Juvenile Market

In 1946, Mr. James Montgomery, general sales manager of the Trask Company, a prepared cereal manufacturer, received a market research study dealing with brand preferences of the juvenile market. The study was prepared by and issued under the name of the Gaylord Associates, a prominent national business consulting firm. A publisher, specializing in children's

publications, had employed Gaylord to make the survey and report on the readership of comic magazines. The survey was conducted among youths between the ages of 8 and 20 and included, among other products, hot and cold cereals of the type manufactured by the Trask Company. The Trask Company was the manufacturer of "Yankees" and "Nifties," nationally advertised brands of hot and cold cereal, respectively. Mr. Montgomery was particularly concerned about the position of his own brands in the market as reflected by this study. He wished to know whether or not brands had to be selected so as to appeal primarily to teen agers, whether this study signified that national as well as local brands sold by chains were increasing or decreasing in importance, and whether local brands were making headway as against nationally advertised products.

Other commodities covered by the Gaylord survey included foods and confections, toiletries, footwear, equipment, and possessions. Each respondent was asked to give age, sex, and his own occupational status as well as that of the head of the family (Exhibits 1 and 2). The number of interviews was divided by neighborhoods within cities on the basis of rental values in order to control the economic distribution. In all, 5,058 young people were inter-

Exhibit 1. TRASK COMPANY. Distribution of Interviews

Age and Sex

	Total		Total male		Total female	
	No.	%	No.	%	No.	%
Total respondents	5,058	100.0	2,503	100.0	2,555	100.0
8–10 years	1,073	21.2	538	21.5	535	21.0
11–13 years	1,202	23 8	594	23 7	608	23.8
14–16 years	1,259	24.8	618	24.7	641	25.0
17–20 years	1,524	30.2	753	30.1	771	30.2

Economic Status

	Total		Total male		Total female	
	No.	%	No.	%	No.	%
Total respondents .	5,058	100.0	2,503	100.0	2,555	100.0
High	829	16.4	418	16.7	411	16.1
Medium..	2,271	44.9	1,088	43.5	1,183	46.3
Low	1,958	38.7	997	39.8	961	37.6

Exhibit 2. TRASK COMPANY. Distribution of Interviews

Occupational Status of Respondent

	Total		Total male		Total female	
	No.	%	No.	%	No.	%
Total respondents	5,058	100.0	2,503	100.0	2,555	100.0
Students	4,563	90.2	2,300	91 9	2,263	88.6
Employed	410	8 1	170	6.8	240	9 4
At home	85	1 7	33	1.3	52	2.0

Occupation of Head of House

	Total	
	No	%
Total respondents . .	5,058	100.0
Skilled workers	1,185	23 4
Operatives and semiskilled workers	794	15 7
Clerical, sales	734	14 5
Unskilled workers	576	11.4
Professional, semiprofessional	465	9 2
Proprietors, managers, officials	410	8.1
Service workers, domestics	342	6 8
Armed Forces . .	246	4 9
Private income, pensions	142	2 8
Farmers, ranchers	81	1 6
Don't know; refused	83	1.6

viewed in 41 urban areas throughout the country. The sample was distributed by age, sex, economic status, city size, and geographical area in accordance with United States census data (Exhibit 3). The results were broken down by age and sex but not by geographical area or income groups. No attempt was made to arrive at seasonal preferences.

The company conducted a preliminary test of the interviewing technique and found that children responded more freely and more accurately when consulted outside the home. Interviews were, therefore, conducted within playgrounds, parks, school yards, or at other locations. Interviewers, specially trained for this work, were particularly careful to talk with each child alone in order to assure uninfluenced answers. They were equipped with a specially prepared form containing a number of questions on the different products being tested.

Exhibit 3. TRASK COMPANY. Geographic Distribution of Interviews

	Total			Total	
	No.	%		No.	%
Total respondents	5,058	100.0	West South Central	308	6.1
			New Orleans, La.	115	
New England	468	9.3	Corsicana, Tex.	97	
West Haven, Conn	100		Austin, Tex.	96	
Augusta, Me.	100				
Pittsfield, Mass.	94		East North Central	1,209	23.9
Springfield, Mass.	93		Chicago, Ill.	267	
Boston, Mass.	81		Detroit, Mich.	134	
			South Bend, Ind.	134	
Middle Atlantic	1,513	29.9	Cleveland, Ohio	118	
New York, N.Y.	496		Madison, Wis.	117	
Philadelphia, Pa.	253		Indianapolis, Ind.	115	
Rochester, N.Y.	191		Marion, Ohio	109	
Trenton, N.J.	129		Columbus, Ind.	108	
Union City, N.J.	109		Appleton, Wis	107	
Elmira, N.Y.	107				
Maplewood, N.J.	100		West North Central	371	7.3
Pottstown, Pa.	78		St. Louis, Mo.	159	
Hudson, N.Y.	50		Minot, N.Dak.	110	
			Des Moines, Iowa	102	
South Atlantic	461	9.1			
Baltimore, Md.	148		Mountain-Pacific	538	10.6
Augusta, Ga.	95		Seattle, Wash..	129	
Charlotte, N.C.	84		Los Angeles, Calif	122	
Ft. Lauderdale, Fla.	67		Bakersfield, Calif.	97	
Bluefield, W.Va	67		Fresno, Calif.	95	
			Pocatello, Idaho	95	
East South Central	190	3.8			
Laurel, Miss.	96				
Birmingham, Ala.	94				

The Gaylord agency felt that the report revealed a number of particularly interesting facts concerning the youth market. First, it was clear that young people in America were aware of nationally advertised brands: "The responses obtained in our field interviewing indicate an alertness and brand consciousness which is comparable to that possessed by adults." Secondly, the report established that youths have very definite brand preferences: "In comparatively few cases were respondents encountered who had no choice as far as brands were concerned. It was found, for example, that 95% have a favorite brand of candy bars, 87% of cold cereals, and 78% of bottled soft drinks. It is also interesting to note that 94% prefer a particular brand of toilet soap and 92% a brand of tooth paste." However, there were a number of fields in which brand consciousness was not nearly so high as indicated by the above examples. Brand awareness of bicycles was comparatively low; while 73% of owners knew the brand name of their bicycle, only 34% of the

nonowners was able to name a brand which they would like to own. Only 38% of flashlight owners knew their brand, and less than 12% of the nonowners could name a brand that they would like to own.

A third interesting fact revealed by the survey was the comparatively early age at which children develop brand preferences. This was clearly shown by selected comparisons of the percentage of respondents who preferred specific brands of products in the various age groups:

	Per cent				
	Total	8–10 years	11–13 years	14–16 years	17–20 years
Candy bars	95.1	93.0	97.8	97.7	93.6
Toilet soap	93 7	89.5	93.8	94.5	95.8
Tooth paste	92.3	77.2	93.6	97.6	97 9
Cold cereals	87 3	89 8	89.8	82.1	75 6
Chewing gum	85 5	74 6	84.9	90.9	89.3
Bottled soft drinks	77.9	66.9	78.0	80.5	83.6
Fountain pens	67 5	38.7	59.0	73 5	81.4
Flashlight batteries	61.0	33 9	62.3	66 6	68 8
Hot cereals	39 6	34.7	50.0	45 0	41 1

The final point which the Gaylord agency considered of major interest was the outstanding position of certain national brands in the minds of American youth. It was clear that certain advertisers had built valuable good will in this juvenile market, and comparisons of brand standing among youths from 8 to 20 years of age with the general market position of products in the various classifications should prove of great interest and value as a basis for guiding advertising and promotional policies.

The agency's report on comic magazines pointed out the enormous readership of this advertising medium. Comic magazines were read by 75% of American youths, and within this group 91% was between the ages of 11 and 13. The frequency with which comic magazines were purchased was shown by the fact that 57.8% of the readers had purchased one or more during the week previous to the interview.

In surveying the cereal market, the agency reported on 19 different brands of cold cereals and 10 brands of hot cereals. Nifties ranked sixth among the cold cereals and accounted for 4% of the market (Exhibit 4). Yankees ranked fifth in the hot cereal market and accounted for 3.4% of the market (Exhibit 5). It was noteworthy that for hot cereals one-third of those interviewed did not know the brand they preferred, whereas for cold cereals the percentage was less than 1%. In the larger group of those who did not know the brand they preferred or had no preference, the survey showed a figure of 60.4% for hot cereal and 16% for cold cereal.

Exhibit 4. TRASK COMPANY. Cold Cereals—Summary of Brand Preferences

	Total		Total male		Total female	
	No.	% *	No.	% *	No.	% *
Total respondents	5,058	100 0	2,503	100.0	2,555	100.0
A	1,006	19.9	649	25 9	357	14.0
B	700	13.8	352	14.1	348	13.6
C	640	12.7	254	10.1	386	15.1
D	352	7.0	235	9.4	117	4.6
E	384	7.6	190	7.6	194	7.6
Nifties	200	4 0	101	4.0	99	3.9
F	189	3 7	103	4.1	86	3.4
G	153	3 0	67	2.7	86	3.4
H	126	2 5	69	2.8	57	2.2
I	114	2.3	50	2.0	64	2.5
J	98	1.9	45	1.8	53	2.1
K	94	1.9	51	2.0	43	1.7
L	60	1 2	28	1 1	32	1.3
M	47	†	24	1 0	23	†
N	40	†	23	†	17	†
O	28	†	16	†	12	†
P	23	†	14	†	9	†
Q	7	†	3	†	4	†
R	6	†	1	†	5	†
Corn flakes (brand unspecified)	369	7.3	152	6.1	217	8.5
Shredded wheat (brand unspecified)	187	3.7	86	3.4	101	4.0
All other cereals (brand specified)	22	†	9	†	13	†
All other cereals (brand unspecified)	110	2.2	76	3.0	134	5.2
Don't know	31	†	13	†	18	†
None; no preference	798	15.8	318	12.7	480	18.8

* Percentages total more than 100% because some respondents named more than one kind of cold cereal.

† Less than 1%.

Exhibit 5. TRASK COMPANY. Hot Cereals—Summary of Brand Preferences

	Total		Total male		Total female	
	No.	% *	No.	% *	No.	% *
Total respondents . . .	5,058	100.0	2,503	100 0	2,555	100 0
A	991	19.6	512	20 5	479	18.7
B	725	14.3	326	13 0	399	15.6
C	434	8.6	220	8.8	214	8.4
D	338	6 7	215	8.6	123	4.8
Yankees	174	3.4	81	3 2	93	3 6
E	175	3.5	70	2.8	105	4.1
F	109	2.2	45	1 8	64	2.5
G	56	1.1	22	†	34	1.3
H	50	1.0	24	1.0	26	1.0
I	24	†	14	†	10	†
J	14	†	7	†	7	†
All other hot cereals (brand specified)	180	3.6	91	3 6	89	3.5
Don't know	1,603	33.7	834	33 3	769	30.1
None; no preference	1,349	26 7	624	24 9	725	28.4

* Percentages total more than 100% because some respondents named more than one brand of hot cereal.
† Less than 1%.

CASES IN BRIEF

1. A medium-sized company which had developed a large and profitable business in sterling silver flat (knives, forks, spoons, and serving pieces) and hollowware (other large serving dishes) had over the years achieved an enviable reputation for quality and design. It had also in a separate division produced plated silver hollowware and flatware under a different name but company reputation had been built primarily upon the sterling line. The proposal had been made that the company undertake the design, manufacture, and sales of stainless steel flatware. Objection had been raised to having the product bear the company name. It was argued that the quality reputation for sterling would be adversely affected if the much cheaper stainless steel products were marketed even if the alternative of forming a separate company or division for the stainless steel flatware and using another trade-mark for such products were adopted. It was asserted that the original company name would probably be mentioned by jobbers and retailers selling the products to consumers. Furthermore, if this did not happen, the company would lose any advantage of the good will which had been built up over the years for quality. The sales manager believed that, so long as there was no misrepresentation of the product or the material used, company reputation would not be adversely affected.

Should the company add the stainless steel line?

2. The Gwynn Clothing Company, located on the eastern seaboard, followed the example of one or two other companies in the clothing field by proposing to add a second brand to its Gwynneth line in order to be able to have more than one exclusive agency in a market area. The company had sufficient capacity to increase its sales but had for many

years used a portion of its plant for private brand business selling to department stores and to larger retail clothiers under retailers' brands. The executives were not sure whether they could be successful in launching a second brand without a separate salesforce and without substantial advertising duplication.

List the factors the executives should have considered before arriving at a decision.

3. The United States Shirt Company maintained two subsidiaries, one which sold men's shirts in the higher price ranges retailing from $5.95 up, and the other in the lower price range from $2 to $5. Each of these sold under their brands which were nationally advertised in consumer magazines on a modest scale and the parent company advertised in trade magazines under a third label which it confined to wholesalers in various parts of the United States. The two subsidiary companies sold directly to retailers, each through a force of between 30 and 40 salesmen. There had been controversy among executives of the company concerning proposals that the company combine its brands into a single brand in order to secure the benefits of more aggressive advertising and promotion, and to avoid the confusion. Opponents said that benefits of the decentralization of subsidiaries and the good will already established for the different brands would be lost by such a move.

How should the United States Shirt Company executives have gone about finding an answer to the problem?

4. The Reardon Company manufactured crashes, toweling, towels, bath mats, washcloths, and shower curtains in its plant in Georgia. Its sales of towels were made to supply firms, dry goods wholesalers, chain stores, and department stores. The Claremont line which included towels ranging in retail price from 39 cents to $1.25 was sold largely through department stores, although some of the product was sold to dry goods wholesalers. The Reardon Company had also purchased the Beverly Company, a competing manufacturer, who had been advertising to consumers for many years under the Beverly name. The Beverly towels ranged in price from 75 cents to over $2 and were well known for their quality and style. Department stores were allowed a larger discount on Beverly than on Claremont products. A third line, the Arbor line, was sold primarily to supply firms, dry goods wholesalers, and chain stores. The company proposed using the Beverly name on medium- and high-grade towels, using the Arbor brand on towels less than 39 cents prewar prices, and the Claremont name for a medium-price towel. On the other hand, the principal competitor used the same brand name on towels ranging from the cheapest to the most expensive quality.

Which plan is superior? Should the Reardon Company adopt the plan which its competitor had found successful?

5. A specialty food manufacturer received an inquiry from a large chain grocery store organization as to the purchase of a very considerable quantity of a processed food product to be packed under the chain's private brand. This product was widely advertised and sold under the manufacturer's brand at a price which was considerably higher than that at which the chain contemplated selling it under its own private brand.

Should the order have been accepted?

6. *Should a manufacturer of electrical refrigerators accept a large order from a distributing organization which has adopted a policy of selling under exclusive agency franchises to department stores?* The refrigerators have special features which are expected to be exclusive, and the department stores are given a larger margin on these than upon the nationally advertised makes of refrigerators which generally reach department stores through distributors who sell to other dealers in the territory.

7. It was the experience of the Thoreau Company, a wholesale grocery firm selling a general line of groceries, that canned

milk produced by national advertisers yielded low gross margins.

Should the company purchase canned milk to be sold under its own established private brand, so as to increase the gross margin obtained in resale?

8. Under what circumstances is it advisable for a firm to adopt a blanket brand for all its products?

9. A survey made by a prominent newspaper in a middle-western city showed that, early in 1940, 142 brands of package coffee, 72 brands of package tea, 105 brands of breakfast food, 205 brands of canned peaches, 49 brands of dessert powder, and 32 brands of prepared pancake flour were sold.

Is this multiplication of brands in the consumer interest?

Discuss.

10. To what extent does governmental authority prevent the misbranding of a product?

11. *Should a textile manufacturer, making sheets and pillow cases, who had promoted his own manufacturer's brand produce private labeled merchandise for department stores for promotional purposes?* It was asserted that buyers would continue to purchase normal requirements from those concerns which specialized in widely advertised brands, but it was also believed that retail stores might play up their own private brands, even though the market was smaller, but possibly with a larger margin.

What would be the long-run effect of such practices upon those firms which promoted aggressively manufacturers' brands of sheets and pillow cases?

D. GUARANTY AND SERVICE POLICY

Many concerns have at one time or another adopted policies whereby they expressly warranted the goods which they sold. Every reputable concern, of course, warrants its product to be as represented.

The Uniform Sales Act, in force in nearly every state in the United States, includes a statement of the warranties implied in every sales transaction. The following excerpts from the Uniform Sales Act of Massachusetts [1] are similar to those from the uniform sales acts in the great majority of states in the union. Under consideration by the legal profession at the present time are revisions of the Uniform Sales Act, but those revisions have not yet been completed.

Section 11. (1) Where the obligation of either party to a contract to sell or a sale if subject to any condition which is not performed, such party may refuse to proceed with the contract or sale or he may waive performance of the condition. If the other party has promised that the condition should happen or be performed, such first-mentioned party may also treat the nonperformance of the condition as a breach of warranty.

(2) Where the property in the goods has not passed, the buyer may treat the fulfillment by the seller of his obligation to furnish goods as described and as warranted expressly or by implication in the contract to sell as a condition of the obligation of the buyer to perform his promise to accept and pay for the goods.

[1] *Mass. Acts and Resolves*, 1908, Chap. 237.

Section 12. Any affirmation of fact or any promise by the seller relating to the goods is an express warranty if the natural tendency of such affirmation or promise is to induce the buyer to purchase the goods, and if the buyer purchases the goods relying thereon. No affirmation of the value of the goods, nor any statement purporting to be a statement of the seller's opinion only, shall be construed as a warranty.

Section 13. In a contract to sell or a sale, unless a contrary intention appears, there is:—

(1) An implied warranty on the part of the seller that in the case of a sale he has a right to sell the goods, and that in the case of a contract to sell he will have a right to sell the goods at the time when the property is to pass.

(2) An implied warranty that the buyer shall have and enjoy quiet possession of the goods as against any lawful claims existing at the time of sale.

(3) An implied warranty that the goods shall be free at the time of the sale from any charge or encumbrance in favor of any third person, not declared or known to the buyer before or at the time when the contract or sale is made.

(4) This section shall not, however, be held to render liable a sheriff, auctioneer, mortgagee, or other person professing to sell by virtue of authority in fact or law goods in which a third person has a legal or equitable interest.

Section 14. Where there is a contract to sell or a sale of goods by description, there is an implied warranty that the goods shall correspond with the description and if the contract or sale be by sample, as well as by description, it is not sufficient that the bulk of the goods corresponds with the sample if the goods do not also correspond with the description.

Section 15. Subject to the provisions of this act and of any other statute in that behalf, there is no implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied under a contract to sell or a sale, except as follows:—

(1) Where the buyer, expressly or by implication, makes known to the seller the particular purpose for which the goods are required, and it appears that the buyer relies on the seller's skill or judgment, whether he be the grower or manufacturer or not, there is an implied warranty that the goods shall be reasonably fit for such purpose.

(2) Where the goods are bought by description from a seller who deals in goods of that description, whether he be the grower or manufacturer or not, there is an implied warranty that the goods shall be of merchantable quality.

(3) If the buyer has examined the goods, there is no implied warranty as regards defects which such examination ought to have revealed.

(4) In the case of a contract to sell or a sale of a specified article under its patent or other trade name, there is no implied warranty as to its fitness for any particular purpose.

(5) An implied warranty or condition as to quality or fitness for a particular purpose may be annexed by the usage of trade.

(6) An express warranty or condition does not negative a warranty or condition implied under this act unless inconsistent therewith.

SALE BY SAMPLE

Section 16. In the case of a contract to sell or a sale by sample:

(*a*) There is an implied warranty that the bulk shall correspond with the sample in quality.

(*b*) There is an implied warranty that the buyer shall have a reasonable opportunity of comparing the bulk with the sample, except so far as is otherwise provided in section 47(3).

(*c*) If the seller is a dealer in goods of that kind, there is an implied warranty that the goods shall be free from any defect, rendering them unmerchantable, which would not be apparent on reasonable examination of the sample.

The general content of warranties appears not to have been changed materially in the new revised Uniform Commercial Code on Sales which was completed for the National Conference of Commissioners of Uniform State Laws in 1952. The first state to adopt the new uniform commercial code was Pennsylvania, where it went into effect on July 1, 1954. Other states have been slow in adopting the code although it was expected that it will eventually supplant the Uniform Sales Act since it recognizes not only the fundamental principles of the sales act but also the modifications which have been made through litigation.

No wise seller expects legally to do less; but he may do much more than the law requires. The guaranties which sellers employ may refer to quality of workmanship and material used; but many go beyond this to guaranties of performance, sometimes judicious in their commitments but in other cases even extravagant in the obligations assumed. Whatever the nature, a guaranty may be a positive step to win buyer approval, but it may be forced upon the seller because the failure to offer express guaranties on a competitive basis may be adversely construed.

The adoption of a guaranty policy depends upon several factors. The first of these is the practice of the trade or of competitors. The second is the difficulty encountered by the consumer of determining quality in advance of purchase. A consumer cannot appraise a complicated machine or the quality of materials entering into clothing with the degree of accuracy which would be desirable from his point of view; consequently, an enterprise which manufactures a product complying with highest standards may find it wise to issue a guaranty to state the facts. A third reason for issuing a guaranty lies in the danger of perishability or deterioration to which some goods are subject. A manufacturer of candy may find it desirable to guarantee the quality of his goods or to provide a label and offer replacement in order that consumer good will built up at great expense may not be impaired seriously by the negligence of middlemen. The most common reason for the use of the guaranty is the selling value which guaranties possess. The selling or advertising value is undoubtedly greatest if the guaranty is unlimited, but the dangers

of abuse are correspondingly great. Limited guaranties are also subject to abuse because frequently misunderstood. From a selling point of view, a guaranty hedged about with restrictions may be of less value than no expressed guaranty.

Of more fundamental importance, particularly with respect to technical products, is service policy. It is obvious that service policy with reference to consumer goods applies particularly to products of a complex nature either in construction or in use. A company manufacturing a technical product which does not provide directly or indirectly for continued operation of its machines or for continuing satisfactory use of its product encounters steadily increasing difficulty in selling. Definite policies and arrangements for service are necessary for every automobile manufacturer. The electric refrigerator which requires the minimum of service is the most desirable, other things being equal. Guaranties have provided frequently either that service will be minimum or that all service costs for a period will be borne by the dealer or manufacturer.

The weight attached to service policy may be fully as great in the case of industrial goods as in the case of consumer products. The need for dependable performance from machines, tools, and materials is so obvious as to require no argument; failures of products and materials lead to delays in production, higher costs, unsatisfactory products, losses, and in aggravated cases, even to bankruptcy. To the producer of the machines, tools, or materials for industry, a reputation for poor undependable service represents a handicap which is difficult to overcome. It is necessary for the makers of such products as equipment, industrial chemicals, and manufacturing supplies to provide salesmen and service men who can and do give competent advice and assistance in securing satisfactory use of their products. Such service, effectively performed, becomes a selling point in advertising and selling programs.

12. GENERAL ELECTRIC COMPANY (A). Administration of Warranty Policy for Automatic Blanket

In July, 1951, Mr. R. O. Fickes and Mr. C. R. McLean were appointed general manager and sales manager respectively of the automatic blanket department in the small appliance division of the General Electric Company. Among the most pressing problems they "inherited" was that of what to do about providing faster and more efficient repair service on defective blankets returned by customers.

Automatic blankets were sold under the following warranty:

> General Electric Company warrants to the purchaser of each new blanket that any part thereof which proves to be defective in material or workmanship within one year from the date of original purchase for use will be repaired or

replaced free of charge. We have no other obligations or liability in connection with said appliance.

This warranty was similar to that on other General Electric appliances and to that given by other manufacturers of electric blankets. This basic policy was satisfactory but many GE executives were dissatisfied with the methods and procedures involved in carrying it out.

In addition to complaints from customers and criticisms by officers of the General Electric Company, the automatic blanket department had received strong expressions of dissatisfaction from several utilities, dealers, and distributors. Many electric power companies had been very enthusiastic promoters of the electric blanket in the belief that it offered a good potential source of off-peak power use. In July, 1951, an executive of the Kansas City Power Company, which had been an especially aggressive promoter, reported that this company would never handle another electric blanket. Most complaints involved the number of failures among older models, the time required for repairs, and the cost; however, the rare occasions when a blanket caught fire and the time required for settling damage claims as a consequence were responsible for some.

Mr. Fickes believed that it was necessary for General Electric to take some action to show dealers, distributors, and power companies that the GE blanket was a good product and that the company was willing to back it in every way. A group of executives from the automatic blanket department and the small appliance division headquarters was assigned to develop recommendations for changes in the procedures for implementing warranty and service policies.

Product History. The first electric bed covering was developed by the pioneer products division of the General Electric Company; in 1936, 66 blankets were sold. Consumer acceptance developed very slowly, resulting in an annual sales volume in 1940 of only 3,532 units. General Electric, the sole producer, had sold a total of 55,000 blankets up to 1942 when World War II requirements resulted in the elimination of production for the duration. In 1946, believing that the blanket was ready for large-scale production, GE executives transferred it from the pioneer products division to an operating division. That same year, three other manufacturers began producing electric blankets and by October, 1951, 14 companies, selling a total of about 30 different brands, made up the field. After one to three years of experience, three manufacturers abandoned production. Most producers were principally manufacturers of electrical appliances, but a few were established manufacturers of other bedding items.

From 1946 through 1948, the automatic blanket department produced and sold about three-fourths of a million Model P. B. 5 blankets with a retail value of about $32,000,000. Total industry sales for this period were estimated

at about one and one-half million blankets, valued at $63,000,000 (see Exhibit 1). The company continued its research and development activity and in late 1948, a new "Sleep-Guard" automatic blanket series, with a greatly improved wiring system, was introduced. Earlier GE blankets and competitive models had relied upon as many as nine "lumpy" thermostats scattered throughout the wiring system to provide protection against overheating. The new wiring system was in effect "one continuous thermostat" and involved the use of a nylon sheathed signal wire in the same insulating jacket as the heating wire. If the temperature of the heating wire exceeded a certain safe limit, the nylon sheath permitted an electrical impulse to pass through the control unit which automatically cut off the current. On the whole, Mr. Fickes and Mr. McLean believed that GE's product was well in advance of competitive models. More testimonial letters were received from customers on electric blankets during 1951 than on any other GE appliance. However, all GE's patented innovations were made available to other manufacturers on a nominal royalty basis; while some manufacturers had taken out licenses on parts of the new control unit and wiring system, no other manufacturer had elected to adopt the Sleep-Guard circuit. GE executives, in the belief that it was important to improve the quality of all brands of automatic blankets, encouraged other companies to take licenses on all patented features of the Sleep-Guard blanket.

Exhibit 1. GENERAL ELECTRIC COMPANY. Industry and General Electric Company Sales Data, Electrical Bed Coverings *

Year	Electrical bed covering industry sales		General Electric Company sales relatives (1946 = 100)	
	Number of blankets	Retail value	Number of blankets, % of 1946	Retail value, % of 1946
1946	200,000	$ 8,000,000	100	100
1947	630,000	26,460,000	217	230
1948	675,000	29,025,000	149	157
1949	440,000	16,500,000	123	138
1950	800,000	31,600,000	127	151
1951	776,000	32,980,000	86	112
Total	3,521,000	$144,565,000		

* Primarily blankets but industry figures include some electric sheets and comforters.

Sales Organization and Policies. An organization consisting of 48 independent appliance distributors and the General Electric Supply Company with its 137 main and branch houses sold to retailers. In territories repre-

senting approximately 50% of sales volume, the automatic blanket department was served by both an independent distributor and the General Electric Supply Company. Distributors typically handled a wide line and salesmen sold the entire GE small appliance line including irons, mixers, vacuum cleaners, clocks, sun lamps, heating pads, grills, toasters, fans, and blankets. Salesmen called regularly on retail appliance outlets in their individual territories. Distributors received a discount of 48% of retail and terms were 2% 10th Prox. net 30th Prox.[1] They were expected to grant a 35% discount to dealers on sales of one to six blankets and 40% on sales of more than six.

The automatic blanket department did not have a separate salesforce. Instead it relied for its personal selling contacts upon the centralized marketing department of the small appliance division which maintained a large salesforce divided into nine geographical districts. Salesmen in each district were under the supervision of a district manager and most salesmen specialized in one or two products of the small appliance division. A total of 25 men sold blankets, of whom nine were blanket specialists, twelve sold both blankets and vacuum cleaners, and four sold the entire small appliance line. Blanket specialists were located in New York, Chicago, Los Angeles, Detroit, Philadelphia, Boston, Cleveland, Minneapolis, and Kansas City. "Split line" salesmen maintained offices in 16 medium-sized cities throughout the country. Salesmen called regularly on all distributors and on at least 100 key department stores. When time limitations permitted it, salesmen called on a few medium-sized department stores as well. Mr. McLean maintained regular contact with all blanket salesmen and assisted them in a variety of ways.

In October, 1951, retail prices of electric blankets varied from $30 to $63 depending upon brand, number of controls, size, and quality. General Electric's blanket, available in three models, sold for:

Twin bed	$52.95
Double bed with 1 control	55.95
Double bed with 2 controls	62.95

These "fair traded" retail prices were about $5 to $8 higher than similar models of other manufacturers.

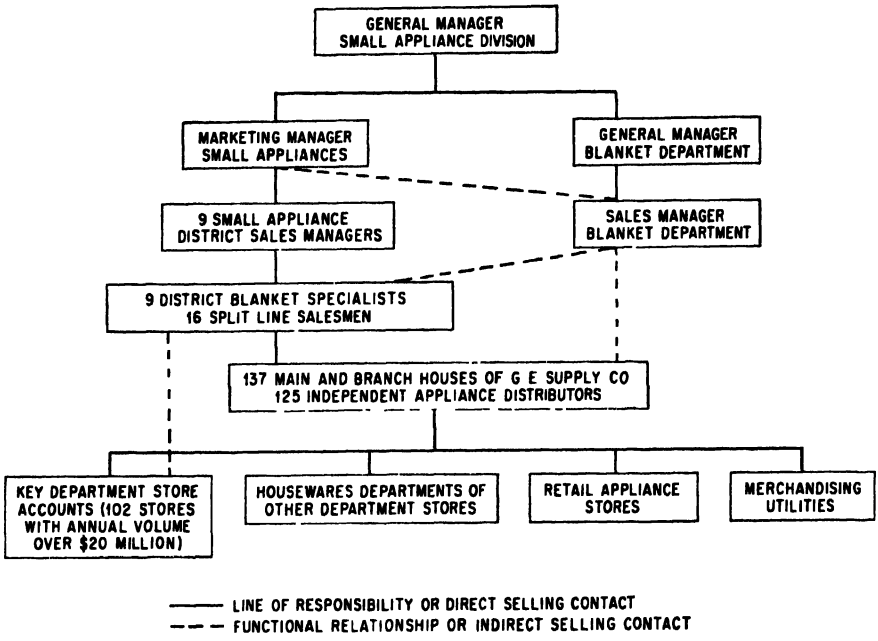
The General Electric Company promoted its blanket vigorously in comparison with other manufacturers.[2] In 1951 advertisements were placed in

[1] Manufacturers' excise tax of 10% was billed to distributors and dealers without markup.

[2] According to reports of Publishers' Association, advertising expenditures for electric blankets in 1950 were:

Chatham Manufacturing Company...	$ 24,000
General Electric Company	178,000
Textron, Inc.. . .	42,000
Westinghouse Electric	49,000
Total	$293,000

Exhibit 2. GENERAL ELECTRIC COMPANY. Marketing Structure



Electrical Merchandising, Linens and Domestic, Retailing Daily, Collier's, Saturday Evening Post, National Geographic, and *Sunset.* Distributors and dealers were supplied with a variety of promotional aids such as mats for local newspapers, radio spot commercials, direct mail material, merchandising kits, display fixtures, and drawings of suggested window displays.

Procedures in the Administration of Warranty and Service Policy. In the event of failure customers were instructed to return blankets to the nearest dealer or distributor who was required to ascertain whether the blanket was in fact inoperative and to determine its warranty status. Since 1949 all blankets had been coded as to the week of manufacture by impressing three numerals into the male plug of both the control unit and the blanket. The first two numerals indicated the week of manufacture and the last numeral indicated the year; for instance, the number 449 meant manufactured during the 44th week of 1949. In those cases where the blanket had been manufactured more than a year ago and a sales slip was not available, it was necessary to exercise judgment as to the truth of the customer's statement about date of purchase. In making a decision as to whether a blanket should be repaired on an in-warranty (free) or out-of-warranty (charge) basis, customers received the benefit of any doubt and when the date of manufacture was less than 18 months old, the customer's statement to the effect that the

blanket had been purchased within the last 12 months was almost always accepted.

Warranty registration cards were enclosed in each blanket package and customers were urged to register their purchase by mailing the completed blank to General Electric. About 40% was returned but no use was made of them in substantiating in-warranty claims. The cards (see Exhibit 3) were in six colors corresponding to those in which the blanket was manufactured and a matching one was enclosed. In 1951, the primary use made of returned warranty cards was the tabulation of color preference to guide production. Also since returns were a fairly constant percentage of total sales, they represented an excellent measure of sales at retail.

Inoperative blankets were forwarded to the nearest General Electric Service Center. Eleven such centers, located in Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, New York, Los Angeles, Philadelphia, San Francisco, and Seattle, handled repairs for almost all the company's appliances. On in-warranty repairs of blankets manufactured more than one year previously, the distributor or dealer was required to submit substantiation of in-warranty claims which usually involved the completion of the blank reproduced as Exhibit 4. However, a letter from a customer giving similar information was acceptable. The charge for repairs on out-of-warranty blankets ranged from $10 to $25, averaging about $15. Upon completion, the service center shipped the blanket to the distributor or dealer for delivery to the customer and collection of charges involved. Distributors and dealers did not receive extra compensation for this service. Frequently, customers sent defective blankets directly to the automatic blanket department or to one of the 11 service centers. In such cases the service center dealt directly with the customer and if charges were involved, billed them to the customer. When repairing a blanket, it was usually necessary to disassemble it completely, remove the old wiring harness, weave in a new wiring assembly, rebind the blanket, and test it. Time required varied; but typically about two to three months elapsed between the date of the customer return and the date the repaired blanket was received.

Executives believed that a substantial portion of failures was attributable to improper care by the customer, such as piling magazines or books on the blanket, failing to exercise proper care in washing, and tucking the wired portions underneath the mattress. However, in the absence of positive proof, customer statements as to the origin of difficulty were accepted. Such evidence as a badly cracked or shattered control unit, or a large hole in the blanket, was considered proof of misuse and no free repairs were allowed. The superior quality of the Sleep-Guard model was evidenced by the reduction in the number repaired during the warranty period, from approximately 7% of sales on the pre-1949 models to less than 2% on the new series.

Exhibit 3. General Electric Company. Warranty Registration Card

IMPORTANT NOTICE

DON'T FAIL to register the purchase of your new GENERAL ELECTRIC

DE LUXE AUTOMATIC BLANKET to protect your warranty.

Here's All You Do

(1) Write the warranty number in ink on the label on underside of control.

(2) On same label fill in purchase date and your name in space provided.

(3) Be sure to print your name and correct address clearly on the attached card. Then tear it off and mail it RIGHT AWAY.

MAILING SERVICE
GENERAL ELECTRIC COMPANY
1.F. BOSTON AVE.
BRIDGEPORT , CONN.

WARRANTY NUMBER

No. 43627J

I M P O R T A N T !

WARRANTY REGISTRATION

General Electric De Luxe Automatic Blanket

To Protect Your Warranty, Fill in and Mail at Once

Date Purchased _____, 19____

Your Name _____

Street or R.F.D. _____

City or Town _____ Zone #_____ State_____

Thank You!

WARRANTY NUMBER

No. 43627J

AB-10-b

Exhibit 4. GENERAL ELECTRIC COMPANY. Warranty Substantiation Blank and Identification Tags

Return to GENERAL GE ELECTRIC

For prompt service this completed form must accompany each appliance returned Place this form in envelope and attach to outside of carton with First Class Postage.

Appliance_____ Model No._____ Purchase Date_____

Dealer's Name_____

City_____ State_____

Describe Complaint Fully_____

Owner's Signature_____ Date_____

Address_____

Form 30-197D - Warranty Substantiation Card.

Return 1043	Return 1043	Return 1043
Staple this part tag to warranty substantiation.	Check defect found and staple this part tag to blanket.	Check defect found and staple this part tag around cordset of control.
	☐ Open Circuit	☐ Open Circuit
	☐ Intermittent Circuit	☐ Calibration
	☐ Appearance	☐ Arcing Contacts
	☐ Other	☐ Differential
		☐ Noise
		☐ Other
	(Do not write in this space.)	(Do not write in this space.)
	Cat. No. _____	Cat. No. _____
	Date Code_____	Date Code_____

Form EX-15 - Blanket and Control Identification Tags.

JK

Property Damage and Personal Liability Claims. In a very few cases fires were reported as having been caused by Model P. B. 5 blankets. Executives were convinced that the fires were almost always attributable to improper use or poor wiring. While every other type of electric appliance caused more fires than did blankets, one of the biggest obstacles to widespread use of electrical bed covering was unwarranted fear of electrocution, shock, and fire. A reported fire did considerable damage to sales possibilities in the area.

Property damage and personal liability claims were handled by distributors. As long as claims seemed reasonable, the General Electric Company

paid the sum agreed upon by the customer and distributor and supplied a new blanket. This arrangement for handling property damage claims was believed not very effective for several reasons:

1. The time required for settlement was entirely too long. Frequently the customer had moved from place of purchase and three to six months might be required to complete negotiations. An average time period of four to six weeks was required for settlement of claims.
2. Distributors did not like to do the job and frequently complained to the company.
3. The experience of investigation and settling a claim tended to dampen the salesman's enthusiasm for electric blankets.

PROPOSED CHANGES IN ADMINISTRATIVE PROCEDURES

In October, 1951, the group of General Electric executives completed the review of present administrative procedures and submitted recommendations for changes. Several proposals represented substantial changes and Mr. Fickes was attempting to decide whether he should adopt all parts of the recommended program, part of it, or none of it.

In-warranty Failures. The most radical departure from existing procedure was the recommendation that the practice of repairing blankets failing within the warranty period be abandoned and a new automatic blanket or section be provided. For the Sleep-Guard series, a testing device would be used to determine which section (blanket or control unit) was the source of difficulty and only that section would be replaced. Estimated manufacturing costs of the blanket section were roughly twice those of the control unit. The production of control units for Model P. B. 5 had been discontinued and Sleep-Guard sections would not work when combined with P. B. 5 sections. Therefore, it would be necessary to replace the entire apparatus for failures in this model. Since no new P. B. 5's had been produced in the last two and one-half years, only a very small number of in-warranty returns were expected. Blankets and/or controls used for exchange to the customer on a no-charge basis would be warranted only for the unexpired portion of the original warranty.

Trade-in Program. It was suggested that the company adopt and promote a "trade-in" program for blankets failing after the expiration of the warranty period, allowances being set at an amount that would persuade the majority of owners of defective blankets to trade in rather than repair. On the basis of conversations with dealers and distributors, an allowance of $30 to $33 on old blankets was suggested; this would result in an exchange price of $23 to $26. This amount would approximate out-of-pocket costs for the company and allow a small margin for the distributor. Blankets sold under the exchange program would carry the regular one-year warranty. For owners of

Model P. B. 5 blankets, the trade-in program would be made available regardless of the operating condition of the blanket. For the Sleep-Guard series, proven inoperative blankets *only* would be eligible for the trade-in allowance. The group recommended that the trade-in program for P. B. 5 owners be promoted vigorously through cooperative efforts with distributors and dealers in direct mail campaigns, local newspaper advertising, and dealer posters.

The practice of making repairs at the 11 General Electric Service Stations would be abandoned. For those customers who insisted upon repair, a central service department would be established at the factory in Asheboro, North Carolina. Approximately 60 days would be required and the cost of labor and materials, plus transportation, might well approximate the exchange price.

Distributors. All distributors would be appointed agents for the exchange program. They would be expected to test blankets returned and to ascertain the warranty status. Two testing devices for use in determining whether the source of trouble was in the control unit or the blanket had been developed. The more expensive unit would identify about 95% of the difficulties while the less expensive unit would locate the defect in about 70% of the cases. It was suggested that all dealers and distributors be required to purchase one of these units at prices of about $35 for the best one and about $2.75 for the other. For in-warranty failures, the exchange would be made immediately without charge. For out-of-warranty failures, they were to attempt to persuade the customer to trade in for a new blanket. For those customers who refused the trade-in offer, the distributor would mail the blanket to Asheboro for repairs. Distributors would be required to maintain sufficient stocks so that all exchanges could be completed at once. To reduce the burden of the exchange plan on distributor finances, it was recommended that exchange blankets be packed separately and sold on a consignment basis. Distributors would be expected to promote the exchange program actively and to give special attention to the task of selling owners of operative P. B. 5 blankets on trading in on a new model.

Distributors would be compensated for the extra duties in two ways: (1) trade discounts would be increased from 48% to 50%; and (2) a margin of 15% of the price paid by the customer on out-of-warranty trade-ins would be allowed.

It was also suggested that distributors be permitted to appoint large retailers handling GE blankets as agents for the exchange program. Retailers would receive 10% of the price paid by the customers for out-of-warranty exchanges. On exchanges handled by retailers, the distributor would receive 5% instead of 15%. Old blankets would be shipped to the factory whenever a reasonable quantity had accumulated. At the factory, blankets and control

units, regardless of their operating condition, would be dismantled and sold as salvage for whatever they would bring. In disposing of such material, care would be taken to sell in markets which would not influence sales of automatic blankets. After the wiring system was stripped out, they could be sold as used conventional blankets to various institutions, such as city, county, and state jails, and homes for the aged. One or two parts from the control unit could be sold as scrap metal. Preliminary investigations indicated that the company should realize about $3 from the sale of salvaged material.

Overheating Claims. Under the proposed plan, legitimate overheat claims would receive special consideration. For overheats on Model P. B. 5's, distributors were to ask the customer to pay the exchange price. However, if the customer objected to the charge, the distributor would be authorized to make the exchange on a no-charge basis as a "concession to the customer." No cases of overheating in the Sleep-Guard series had been reported to the company, but if such cases developed, a no-charge exchange was to be made regardless of the warranty status. Distributors would be credited for overheat blanket exchanges upon the presentation of a statement signed by the customer giving the same information as that given for the in-warranty exchange.

Personal Liability and Damage Claims. The acceptance of an offer by a liability insurance company to handle all property or personal injury claims arising out of overheats was recommended. Almost all claims involved only bedding items; occasionally the interior of the bedroom was damaged by smoke. The insurance company's plan for handling claims would provide rapid service regardless of the location of the customer's home. Under the terms of this plan, the distributor or dealer receiving the complaint would immediately call the insurance company collect and report the details of the incident. The insurance company would then call the customer asking for a full description of the blanket, name of the dealer from whom it was purchased, date purchased, and details as to the items damaged. If the customer seemed reasonable, and most of them had been in the past, an offer to settle would be made over the telephone. Average prices of new bedding items would be used as a guide to allowance for damaged articles. Customers would be told how very rare these overheats were, and that after two and one-half years of use, no serious overheats had been reported on the Sleep-Guard series. Also the insurance company would offer to give a new Sleep-Guard blanket free within one or two days.

If this was agreeable, a call would be placed immediately to the nearest distributor or dealer instructing him to deliver a blanket and to get the customer to sign a release. The distributor or dealer would be credited with the cost of the blanket upon its receipt. Insurance company executives esti-

mated that most claims would be completely cleared within two days after the customer's complaint. This service would cost the company between $32,000 and $56,000, depending upon the amount of claims actually paid. It was estimated that the charge would be from one-third to one-half more than the average annual claims paid in the last three years.

Mr. Fickes and Mr. McLean talked with several key distributors about the proposed warranty and service plan. Most distributors were opposed to any attempt to shift more of the service function to them and pointed out that they were not asked to handle service problems on any other General Electric small appliance and that they did not have the facilities to carry out the program. Furthermore, they said that it would complicate their records and tie up storage space and man power needed for other products and activities. Mr. Fickes believed that electrical distributors habitually opposed almost any attempt to get them to handle additional service problems. On the other hand, he knew customers wanted prompt service and believed that over-the-counter, same-day service, was the ideal plan from the standpoint of customer relations and future sales volume. It was expected that in-warranty exchanges would fall rapidly in the near future, reflecting the much improved quality of the Sleep-Guard automatic blanket.

13. APLEY APPLIANCE COMPANY. Service Charge to Customers

In addition to a variety of adding and cash register machines, the Apley Appliance Company produced about 100 bookkeeping machine models. The appliances were of high quality and sold at a price level equal to competing machines, ranging from $400 to $2,000. The sales organization consisted of agents in principal cities throughout the United States, appointed by the company and given commissions on sales. These agents, in turn, paid commissions to their salesmen.

To secure an order for a bookkeeping machine, such as a ledger poster, a salesman usually studied the existing accounting system of the prospective customer. If a need existed for a machine, the salesman outlined a method by which it could be used and recommended a complete system, including the proper forms and equipment. If the order was obtained, the salesman assisted in the installation of the new system. Time devoted to the revision of a prospective customer's bookkeeping system and to the installation after an order was received rested entirely on the salesman's judgment.

Frequently the agents' salesmen encountered situations which required the services of trained accountants. For this purpose, the company maintained at the home office a staff of six accountants whose assistance was given when called for by the salesman. An accountant studied the bookkeeping method in use by a prospective customer and designed an improved method which involved the use of the proper Apley machine. If the sale was completed, the

accountant supervised the change from the old system in order to ensure the satisfaction of the purchaser. The commission of a salesman who was assisted by an accountant was not reduced. The services of an accountant were used only infrequently for sales to a corporation with elaborate accounting records because such a corporation usually had its own experienced accountant.

The entire expense for the Apley accountants, which included salaries, travel expenses, and living expenses away from the home office was estimated to be about 5% of the company's total sales. It was estimated that half of this expense was chargeable to installation services for customers. Customers' expense varied according to the special requirements in each case; after a proposed system had been accepted, the accountant might spend from one to five days installing it. Travel expense depended on the distance from the main office, which was located in the middle-western part of the United States, but a typical installation usually amounted to $100 or $150.

The accountant's services had always been given to customers without charge except in a few exceptional instances which required performance of services not directly connected with the installation of machines. Free service to customers also included the repair of machines necessitated by ordinary wear or usage for one year after the date of purchase. This was an accepted practice in the trade. Although the services of accountants were furnished without charge by most of the company's competitors, a few manufacturers at the time of sale specified an installation charge equal to the estimated expense. These charges did not raise prices above those of the Apley Appliance Company. The sales manager deliberated on the desirability of establishing a similar charge.

Although the services of accountants sometimes were necessary for the recommendation of an improved method of bookkeeping, after a sale was completed they performed services which the customer might be expected to obtain from a public or his own accountant. Since the majority of sales was completed by the salesmen and the accountants were necessary only under unusual circumstances, the price of machines had been fixed without any allowance for this expense. If a charge was made, therefore, approximately half of the reduction in profits caused by accountants' expenses could be eliminated. It was not expected to lower the list price if a change was made. On the other hand, sales resistance would be increased, because a customer might be unwilling to pay a charge, in addition to the cost of machines, for the installation of a revised system of bookkeeping.

Should the Apley Appliance Company have established the policy of charging customers for accountants' installation expenses?

CASES IN BRIEF

1. Manufacturers had been much concerned with the failure of many retailers and wholesalers to provide necessary technical service for consumers in order to make consumer durable goods of particular makers acceptable and continuously satisfactory.

In view of the tendency of some companies to develop full lines, was it likely that manufacturers would seek to provide better service by the establishment of service stations at strategic locations through a marketing territory?

2. A large manufacturer of printing presses and machinery was troubled with the problem of its parts business. The company supplied some 35,000 parts and they ranged all the way from heavy castings and intricate castings to small clips, screws, etc. Prices varied accordingly and the items were in many cases made by outside companies as well as by the machinery company. The proposal had been made that the company might be able to increase its sales, cut down the number of small orders, and improve plant and customer relations through merchandising packages of most commonly used parts.

Under this arrangement the company would sell and package quantities of parts or multiple quantities of the same part. This raised problems of pricing, sales policies, customer relations, and advertising, and constituted a radical departure from long-established customs of the company and trade.

What considerations would have covered the adoption of the proposal?

3. Is it advisable for an automobile manufacturer who is anxious to stress the low repair and upkeep costs in selling effort to insist as a condition of dealer and distributor contracts that service jobs be rendered by dealers at resale prices which achieve this economy for the consumer? Should he dictate job prices for a variety of upkeep and repair jobs including parts and labor?

4. Some years ago an electrical manufacturer received a report from a public utility that a turbine which had been installed three years previously had been severely damaged by some sort of explosion within the turbine. A repair bill of $150,000 was involved. The electrical manufacturer was under no legal obligation to assume the cost of that repair bill, but the public utility made a claim upon it on the ground that the turbine which cost $1,000,000 had reasonably been expected to give a minimum of ten years' service, although the guarantee period had lapsed.

What should the electric company have done?

5. Which of the following methods should a small manufacturer of automatic washing machines use to provide the necessary service to keep washing machines operating satisfactorily: (1) depend upon the dealer through agreement to furnish satisfactory service; (2) establish a separate corporation to service all dealers in smaller territory; (3) ask the dealer to return units requiring service to the factory; (4) suggest that dealers turn over to local service corporations the problem of providing necessary service? What problems are involved in each plan?

6. The Cunningham Corporation produced and sold a combination of service and materials for treating metals. Large plants were usually licensed by the corporation to do their own treating, material being sold to them at list price less a discount based on quantity purchases. The Cunningham Corporation had done a great deal of work in perfecting the treating process and maintained a staff of skilled engineers to advise and assist licensees. Initially, such service had been rendered free, but it was discovered that licensees called for service upon the slightest provocation when a minimum amount of care and thought on the part of those in charge would have made such calls un-

necessary. To eliminate waste, it was proposed that a nominal charge of $15 per day for service be charged, although such a fee would not entirely reimburse the corporation for the service.

Should the proposal have been adopted?

7. The Multiple Battery Company over a period of years developed substantial sales in dry and wet batteries for automotive use. Multiple executives had followed competition in establishing a time guaranty and making adjustments for failure upon the basis of unexpired time. For the better batteries, guaranty period was 24 months, and the failure of a customer's battery at the end of 18 months entitled the customer to a refund or allowance of 25% of the original price. A proposed new policy modeled after the policy of competitors in prewar period included three parts: (1) the addition of a new line of very heavy duty batteries; (2) the adoption and featuring of a guaranty of satisfactory service to each buyer for the whole period for which the battery was bought so long as it remained in the buyer's possession; and (3) a charge about double that quoted by other battery companies for heavy duty batteries. It was expected that batteries would have to be replaced in more cases relatively than in older guaranties, but allowance was made in the price for such replacement and for extra promotional effort.

Should the plan be adopted?

8. Should a manufacturer or jobber guarantee his products? If so, should the guaranty be written? Is the sales advantage from an unqualified guaranty sufficient to offset the dangers of abuse?

9. What influence will service policy have upon sales costs, upon margins, and upon sales volume?

10. In November, 1947, the Association of Better Business Bureaus recommended revisions and additions to its Guide to Retail Advertising and Selling. Condemnation of "lifetime" guaranties was raised as one point requiring revision. The objection was raised to lifetime guaranties that the durability of performance of any product might not be in question, but the "durability" of a dealer to stay in business long enough to back up such a warranty was in doubt.

Should such guaranties be given? What are the advantages and disadvantages? What are the implications for a fountain pen manufacturer?

11. A manufacturer of electronic, especially television, tubes, was concerned with the question of replacement policy for receiving tubes which failed within the warranty period. Investigation showed that two principal policies were being followed by competitors. The first was entitled the "Tube-for-Tube" policy, whereby all tubes that failed within the warranty period were replaced promptly by the tube department distributors and resulted in excellent consumer relations.

The second, the 5% discount policy, gave the distributor an extra 5% allowance for failure although it was known that the cost of replacing tubes that failed within the warranty period was lower than 5%. One of the largest manufacturers had adopted the 5% policy; many other reputable companies followed the tube-for-tube policy. Estimates of the cost indicated that the tube-for-tube was substantially less expensive for the manufacturer and probably created more good will with the consumer although not with some retailers who realized that the 5% was more liberal.

Which policy should the manufacturer adopt? Why?

12. A Chicago company engaged in the production and distribution of X-ray equipment found as a result of enormously increased demand during the Korean war that it would be compelled either to neglect the manufacture of parts for replacement and maintenance, or reduce its production of new equipment to fill parts orders already on the books and for which there was urgent need. A field survey showed that customers already using company equipment were waiting more than six months for replacement parts. It was reported that important hospital and industrial accounts were being lost because of service and inefficiencies,

and not enough service engineers were in the field to perform prompt and adequate servicing. There was also lack of communication between customers, local offices, and factories.

The remedies which were proposed were not to increase the quantity of qualified service engineers but that they should be better supervised on service calls. Secondly, that service to maintain the good will of existing users of the product should be given preference over engineering service to get new business. A third recommendation was that order procedure should be aimed to provide for prompt filling of customer service orders and that general orders should be placed with the factory.

As a general principle, it was asserted that customer service in manufacturing should immediately fill existing customer back order requirements; that the engineering division should speed up the proposed standardization of component parts. It was also suggested that customer service and manufacturing should determine the feasibility of carrying inventory in an unfinished state to maximize inventory utilization.

Were these proposals likely to improve sales, profits, and service of the X-ray manufacturer?

13. Recently announcement was made of a drive to eliminate certain practices in the sale of used television tubes. Philco Corporation and Sylvania Electric Products, Inc., were reported to head the drive, both making and selling TV and radio tubes separately from the finished products. Other leading companies were seeking to cooperate with legal authorities in prosecuting racketeers who cleaned up and sometimes repaired old tubes in order to sell them to unsuspecting storekeepers, service men, and set owners as new. Renovation costs were quite low and the renovated tubes were sold at prices up to 80% of new tube prices. The manufacturers believed that the public was injured as well as manufacturers who lost good will and money by the failure to secure their proper share of the replacement market.

It was alleged that set owners might only get a few days' service from what they thought were new tubes. Old vacuum tubes were bought from service men and storekeepers for little or nothing. They were then cleaned and polished and the original manufacturer's name was eradicated. Tubes were rebranded with the name of another top manufacturer and sold at substantially higher margins than on new tubes from manufacturers. There were, however, some concerns that were able to restore tubes to a useful life. In this drive, manufacturers were not directly concerned with them, although they presented a problem also.

The approaches proposed varied. Philco was said to have told all radio and TV service men, technicians, and storekeepers in May, 1955, that it would allow them a credit of 5 cents for each old tube turned in. The tubes were to be smashed in the presence of those who handed them over. The general manager of the Philco accessory division thought widespread industry use of this plan would keep 30,000,000 used tubes a year out of the hands of racketeers.

The Sylvania company was reported as offering a substantial cash reward for information leading to the arrest and conviction of any service man or company using its tubes fraudulently. Any citizen would be paid $1,000 if he could supply Sylvania with information that would make possible legal punishment of an individual fraudulently using its name. The announcement was made to dealers in a special letter sent out by the company.

Should the Philco, Sylvania, or some other policy be adopted to meet the difficulty?

14. In a special message to shareholders in June, 1955, the president of a large manufacturer of refrigerators announced a revision of the 1954 earnings statement which resulted in a reduction of net earnings figure of some $14,000,000. This revision of the earnings statement was said

to be designed to give retroactive effect to a new tax ruling applicable to 1954 operations which made it impossible to accrue for tax purposes the estimated provision for future obligations which the company made in order to provide for warranty and guarantee expenses. To quote:

> For example, the company warrants the operating mechanism of household refrigerators for five years. If we find that on the average it costs us, say, $5 over the five-year period to fulfill this warranty, we include $5 in the cost of each refrigerator sold to provide for these expenses. The repealed provision of the tax law would have permitted us to follow this same treatment for tax purposes. After repeal, the company is not allowed to deduct the estimated $5 cost from taxable income in the year the refrigerator is sold but rather must claim the expenses as deductions from income on the sale of other refrigerators or other products in later years.
>
> As previously indicated, the company has always provided for these estimated future expenses in determining its earnings for management purposes and in reporting to share owners.

Should the company continue to carry these reserves on its books each year, throwing appropriate credit balances into its earnings statement for tax purposes?

E. CONTAINERS AND PACKAGING

Supplementing the growth and change of transportation facilities have been the many and important changes in containers and packages used for the transportation, distribution, and display of products. Up to very recent times, only simple and crude containers were used for most commodities requiring protection during shipment, while consumer packages of modern types did not exist. Hogsheads, barrels, wood boxes, and bales of coarse textile materials sufficed. The tin can was not yet the universal food container, and the new materials which figure so largely in packages had not yet been utilized.

In any discussion of packaging, one must distinguish between the shipping containers and shelf containers or packages. Ordinarily, the shipping container holds quantities representing multiples of the customary demands of individual users. The purpose of the shipping container is primarily that of protecting the product in the process of delivery from producer to retailer or other buyer. Containers should be chosen to furnish the needed protection and convenience with the minimum of cost. A choice of materials is available—metal, wood, fiber, fiber board, crates, boxes, bags—while proper design, to furnish strength and protection with economy, has been given adequate attention during the past few years by more aggressive firms. Shipping containers may on occasion carry advertising display, but ordinarily the importance of shipping containers as advertising media is much overshadowed by the importance of consumer packages for this purpose.

The purposes of the consumer packages are to furnish a convenient quantity in a package which will possess certain advantages from the point of view of demand stimulation and to facilitate physical handling during the

processes of distribution. To the manufacturer, it is a convenient means of identifying his product; through packaging the salability of the product may be improved and its shelf appearance made attractive, thus creating a greater interest. From the viewpoint of the consumer, the advantage of the package lies in its convenience and in its protection against deterioration; the disadvantage is the cost of the package and of the packaging process.

The problems which a manufacturer must face with reference to packaging are many. Shall he package his goods for the consumer? If so, what size of consumer package shall be use; what type of package from the viewpoint of material, color, design? He may choose boxes, bags, cans, bottles, crates, glass, baskets, tubes, cellophane. He may employ a dozen different materials —paper, wood, tin, pulp, lead, plastic materials. He may use a container which, when its first use is completed, may be utilized for other purposes. Much remains to be done after the type and material for the container have been decided. The use of design and color and the limitations of cost all tend to complicate the decision. The proper use of a container may increase the unit of sale either by combining allied products with the principal product or by making it convenient to purchase several units instead of a single unit of a product.

From a business point of view, the selling value of packages and the extra sales and profits are to be set off against the costs of packaging. Likewise, from a social point of view, the costs of selling in bulk are to be opposed to the costs of selling in a package and the differences measured in social value against the extra satisfaction which the consumer secures. Packaging in itself needs to be dissociated in such arguments from the use of packages as a basis for the "puffing" advertising on the part of manufacturers whose contribution to consumer satisfaction lies largely, if not entirely, in the packaging of the product.

14. SYLVANIA ELECTRIC PRODUCTS, INC. Developing a New Type of Package

The Sylvania Electric Products, Inc., a large manufacturer of electric lamps, radio tubes, fluorescent tube lamps and fixtures, was anxious to improve the merchandising of some of its products. In 1944, the new sales research department was requested as its first major project to study the residential, commercial, and industrial market for incandescent lamps, or, as the public called them, light bulbs. Previous to this study, the company did not know how many bulbs were used, where they were used, and how they were sold; nor, in the opinion of several officers of the company, did anyone else in the industry. The actual market survey was handled by a leading United States market research organization. Large cities of 1,000,000 and over, medium cities of over 250,000, small cities over 25,000, country towns of over 2,500, and farms were surveyed in all parts of the country. The sam-

ple for the study was scientifically selected from the standpoint of geographical distribution, type of home, and economic group.

Several interesting discoveries were made as a result of this first study. For example, about 40% of sales of bulbs to residential outlets was made through grocery stores, whereas the company had always considered variety stores, hardware stores, and electric stores as the biggest outlets. It was also learned that women were the principal purchasers and that the average purchase was one or two bulbs. Results of the first survey are shown in Appendix A.

At about the time this survey was being carried out, a former employee of Sylvania, who had obtained a job as salesman for a paper manufacturer, offered for sale to the company a new carton for light bulbs. Formerly bulbs had been sold packed in rectangular sleeves with six such sleeves packed in a larger rectangular sleeve, and they had also been sold loose in bins in some stores. The new container was a flat molded pulp box similar to boxes used for packing eggs. Even before the research had started, the company had been convinced that packages for light bulbs could be much improved. Present packages were bulky, hard to store, and encouraged single purchases of bulbs. The study had suggested that (1) a new package must appeal to women; (2) it must be a good package for grocery, variety, and similar stores; (3) it must be easy to store; and (4) it must be an attractive package of five or more to help raise the average purchase of 2.7 bulbs. Furthermore, the package should be labeled "bulbs" because, while manufacturers called the product incandescent lamps, the consumer called them bulbs, electric bulbs, or some variation with the word bulb in it. Finally, the package should be light, sturdy, distinctive, easy to handle, and it could not add to the cost. Of the many designs considered, the egg-box design was the only one to meet all the specifications, and further, it was cheaper than the old package. The company decided to pack five bulbs to a box because the common size bulb sold for 10 cents and five would make a 50-cent package, a good price for wide appeal. Once the decision to try the egg-box package was made, it was carefully tested in controlled areas. In the summer of 1945, it was put on sale in 25 grocery stores in Worcester, Massachusetts; Danbury, Connecticut; and Long Island, New York. In 12 grocery stores with competition, the following results were obtained: Before the installation of the 5-pack display, average weekly sales of competitors were 243, and of Sylvania, none; after installation of the 5-pack display, average weekly sales of competitors were 186, and of Sylvania, 396. In 13 grocery stores without competition, average weekly sales after installation of the Sylvania 5-pack were 689.

Continuing surveys were made of both consumer reaction and dealer reaction. For purposes of the survey, the handy 5-pack was shown to grocers and druggists, although the actual tests were run only in the grocery stores. Appendix B shows some of the facts obtained by these surveys.

By the summer of 1946, about 100,000 of the 5-pack had been sold, but the company's supplier, because of difficulties in obtaining paper and machinery, was unable to furnish the company with enough packages for large-scale distribution. While no substantial advertising of the package had been done, press releases on the results of the company's surveys had been given out. The company was unable to supply the heavy demand for the new package, and many dealers were disappointed when only bulbs in the old-type package were obtainable. As soon as the necessary supply of packages could be secured, the company was planning on large-scale distribution.

Appendix A. SYLVANIA ELECTRIC PRODUCTS, INC. Residential Lighting Report (Preliminary)

WHO IS THE CHIEF BUYER OF LIGHT BULBS?

There are 36,000,000 families in the United States.

In 61.3% of these families the housewife is the chief buyer of light bulbs. In rural communities and in the larger cities, the percentage is lower, 55.5% and 56.5%.

In 32.5% of the homes, the husband buys the bulbs.

7.0% of the bulbs is bought by other members of the family.

People outside the family account for 1.6% and servants for 0.5% of the remaining purchasers.

In rural areas under 2,500, the wife makes 56.5% of the lamp purchases and the husband 46.7%.

WHERE DO THEY SHOP WHEN THEY BUY LIGHT BULBS?

	Present source	Preferred source
Grocery store	40.6	35.6
Variety store	21.1	11.0
Hardware store	19.2	12.9
Public utility	17.2	14.3
Drug store	14 3	10.2
Electrical store	12.9	9.7

More people would like to buy bulbs in a grocery store than any other type of outlet in the preferred group, although the public utility and the hardware store rank ahead of the variety store in the purchaser's preference.

Many gave more than one answer. Therefore, the total is more than 100%.

HOW MANY BULBS DO THEY BUY AT A TIME?

From 2 to 6 bulbs were last purchased by 64.2% of those interviewed. 23% bought more than 6, and 12.8 bought only 1.

Number of Bulbs Last Purchased

1	12.8	6	17.7
2	20.6	7-11	3.5
3	12.4	12	7.6
4	10.9	Over 12	3.8
5	2.6	Don't know	8.1

In cities of 1,000,000 and over, 11.3% bought 12 at their last purchase.

Over half (53.2%) of those buying more than one at a time bought assorted sizes.

HOW OFTEN DO THEY BUY?

Twice a year is the most common rate of purchase.

Less than once a year	3.9	Four, five, and six times a year	15.4
Once a year	16.2	Over six times	2.3
Twice a year	27.1	Buy as needed	6.1
Three times a year	19.5	Don't know, other answers	9.5

WHAT DO PEOPLE ASK FOR WHEN THEY WANT AN "INCANDESCENT LAMP"?

For many years the lighting industry has used the term "incandescent lamp." The public, however, does not agree with this terminology. When they go out to buy, they call them:

"A light bulb"	25.6
"An electric light bulb"	23.1
"A bulb"	17.4
"An electric bulb"	11.4

In all over 20 names are used. Over 95.7 use the word "bulb"; only 2.4% use the word "lamp."

DO BUYERS OF LIGHT BULBS PREFER ANY PARTICULAR BRAND?

There is little demand for any one brand of incandescent bulbs.

Most buyers will gladly accept any recognized brand offered for sale.

Wartime brand shortages have brought the realization that the lamp industry makes good light bulbs.

Merchandising is the key to further brand sales.

DID CUSTOMERS HAVE ANY DIFFICULTY BUYING INCANDESCENT AND FLUORESCENT BULBS DURING THE WAR?

91.5% had no difficulty that they could remember.

People in cities from 2,500 to 24,999 had the greatest trouble but even then only 11.0%.

People in the rural areas had the least difficulty—only 4.9%.

NUMBER OF EMPTY SOCKETS PER HOME

The average number of sockets per home is 22 of which 1.6 are empty.

The use of lamps (portable sockets) is more prevalent in the larger cities. Among the homes inventoried, the proportion of portable to fixed sockets declines steadily as the city becomes smaller.

DO THEY HAVE SPARE BULBS ON HAND?

Less than half the people interviewed had any spare bulbs on hand—43.0%.

In the largest cities 46.0% have some extra bulbs.

40.3% in cities from 250,000 to 999,999.

46.1% in cities from 25,000 to 249,999.

38.3% in the rural community.

Among those who own homes, 50.7% had spares; of those who rent, 35.5% reported bulbs on hand.

Over half of those who had spare bulbs had less than 6.

Two bulbs per home were reported by 26.7%, the largest group.

WHAT IS THE FUTURE FOR INCANDESCENT LAMPS?

Based on the fundamental soundness of the formula which has been used for the last ten years, Sylvania predicts that the total industry sales for the next four years in the residential field will be as follows:

1946	295,000,000
1947	288,000,000
1948	306,000,000
1949	333,000,000

Appendix B. SYLVANIA ELECTRIC PRODUCTS, INC.

Do people like the new 5-pack?

Preferring 5-pack, 64%; old package, 29%; no choice, 7%.

What do people like about the 5-pack?

Less breakage, safer, protects bulbs, won't slip out, rub each other, scatter.

Handier, easier to handle, easier to carry, more convenient.

Easier to store at home, easier to keep together, fits in drawer, can be put on shelf.

Compact, less bulky, neater, always have some extra.

What do people dislike about the 5-pack?

Nothing at all, expressed by 88% of all respondents.

Handful said "too many in a box."

Will people buy 5 at a time?

	Yes	No	Don't know
Average	75%	22%	3%
Upper class	83	15	2
Middle class	75	23	2
Lower class	68	27	5

Would people insist on testing bulbs?

Even a sealed carton, if accompanied by a guarantee, would be acceptable to four out of five people.

DEALER SURVEY RESULTS

Which type of package do dealers prefer?

	Grocers		Druggists	
	New	Old	New	Old
Independents	61%	33%	63%	33%
Chains	71	25	53	47
Supers	62	32		

When first shown the 5-pack, all classes of grocers and druggists selected the 5-pack by a wide margin.

Why is the 5-pack preferred? (Principal reasons shown in order of importance.)
Better protection for bulbs; would increase sales; handier, handles easier; would display better or easier; neat carton; saves space; saves time wrapping; more compact.

What do dealers consider the chief disadvantages?

1. Too many bulbs in a package (no call for five bulbs).
2. Can't see the bulbs.
3. Would break easier.

Only the first reason was cited by more than a handful, and that objection can easily be turned into an asset.

How should the package be made up?
When given a choice between one wattage per pack (five 25's, etc.) open for customer to make selection, the vote was decidedly for one wattage. An exception was the independent grocers who divided about evenly. Comparatively few suggested a mixed pack.

What about testing?

	Independent	Chain	Super
Grocers:			
Necessary or desirable	15%	22%	25%
Not necessary...	85	78	75
Druggists:			
Necessary or desirable	10	18	
Not necessary	90	82	

Over three-fourths say testing is not necessary—that a guarantee is sufficient. (The majority don't test bulbs now.)

What is the net of dealer opinion?

	Interested	Moderate	Not interested	Don't know
Grocers:				
Independent ..	45%	21%	32%	2%
Chain	49	22	26	3
Super .	63	20	15	2
Druggists:				
Independent	40	20	40	
Chain ...	36	16	30	18

15. BOSWELL PRODUCTS COMPANY. Determining the Unit of Sale through Consumer Tests

The Boswell Products Company, a manufacturer of bobby pins, hairpins, and curlers, sold its line of bobby pins under the national brand of Stayfast. The unit of sale was a card containing 30 pins and selling at the retail price of 10 cents. Late in 1946, the company was planning to introduce a new bobby pin under the name of Perma-Hold for which executives claimed great superiority over the present pin. However, in order to keep the new pin in the same retail price range, Boswell believed that it had to reduce the number of pins sold on each card because of higher production costs.

In order to determine the point of customer acceptance of such a reduced quantity, the firm retained the services of the B. S. Goodhue Company, an independent retail research organization, which planned to conduct consumer tests in retail stores using the following procedure: First, stores cooperating in the test would be supplied with quantities of Stayfast and Perma-Hold pins free of charge. The amount of sales units required for the test was found by taking the average weekly sales of Stayfast or some other leading brand if the Boswell brand was not ordinarily stocked. For the purpose of the test, the Perma-Hold pins would come on 10-cent cards holding varying quantities—12, 15, 18, 24, and 30—each quantity to be displayed side by side with the Stayfast pins for a period of one week. Thus the test was to last five weeks with the cooperating store changing the Perma-Hold stock on four consecutive Mondays after the original installation and maintaining accurate weekly sales records for each type pin.

Before the test was begun in the third week of November, 1946, Stayfast pins were inventoried in 10 selected test stores to obtain the weekly rate of sale. Also, in order to evaluate the effect of a descriptive bin sign on the sales of the new Perma-Hold pin, six of the test stores employed the sign while the remainder did not. Results of the test which was concluded in the last week of the year are given in the table in Exhibit 1.

Exhibit 1. Boswell Products Company. Weekly Sales by Test Stores

Store code no.	Display sign used	1st week		2d week			3d week		
		Stay-fast, doz.	Total	Stay-fast, doz.	Perma-Hold 12's, doz.	Total	Stay-fast, doz.	Perma-Hold 15's, doz.	Total
1	x	21	21	14	¼	14¼	19	5/11	19 5/12
2		2⅙	2⅙	1	1/12	1½	1⅙	1/12	1¼
3	x	4⅙	4⅙	⅙	0	⅙	1⅓	⅙	1½
4		⅔	⅔	0	0	0	⅓	0	⅓
5	x	65/12	65/12	55/12	⅙	57/12	1¼	½	15/12
6	x	1	1	1¼	½	1¾	¾	0	¾
7	x	6	6	3 11/12	⅓	4¼	6⅙	11/12	7 1/12
8		3¼	3¼	3½	¼	3¾	2 11/12	⅙	3 1/12
9		6	6	5	1⅓	6⅓	5	1⅓	6⅔
10	x	10	10	7	⅙	7⅙	9	¾	9¾

Store code no.	Display sign used	4th week			5th week			6th week		
		Stay-fast, doz.	Perma-Hold 18's, doz.	Total	Stay-fast, doz.	Perma-Hold 24's, doz.	Total	Stay-fast, doz.	Perma-Hold 30's, doz.	Total
1	x	20	2½	22½	26	8	34	19	22½	41½
2		⅓	⅙	½	5/12	¾	1⅙	2⅙	1	3⅙
3	x	3 1/12	1/12	3⅙	1	1½	2½	2	1	3
4		1	⅙	1⅙	1⅙	⅔	1⅚	½	1½	2
5	x	3	1	4	6	4⅓	10⅓	3	3¼	6¼
6	x	1	5/12	1 5/12	3⅔	1	4⅔	0	7/12	7/12
7		4 1/12	11/12	5	7	4⅚	11⅚	3	7⅔	10⅔
8		3⅓	⅙	3½	1 11/12	2⅓	4¼	3½	1⅙	4⅔
9		6	2 7/12	8 7/12	5	3 1/12	8 1/12	3	6 1/12	9 1/12
10	x	5⅔	2 7/12	8¼	5⅓	5½	10⅚	4 11/12	3	7 11/12

In a letter to the president of the Boswell Products Company, written upon the completion of the test, the Goodhue representative in charge of the survey stated his conclusions:

The Perma-Hold test clearly sets a sales pattern from which final conclusions can be drawn. Though sales show great variation due to the Christmas season, the survey indicates definite points:

1. The gradual increase in Perma-Hold sales with increased pin count establishes that *regardless of signs calling attention to superior quality, quantity is the influential buying factor*. In most of the stores the largest sales volume occurs in the 30-pin count although the 24-pin card also shows increased sales.

Perma-Hold sales are *added* as well as switched business as evidenced by the fact that in some test stores regular Stayfast sales remained fairly constant and increased sales came from increased Perma-Hold volume.

2. As the buying factor of pin quantity becomes equalized, *the added item increases total sales of Boswell products.*

CASES IN BRIEF

1. The Roanoke Chocolate Company sold its de luxe cooking chocolate and cocoa products under labels which remained essentially unchanged for a great many years. While minor alterations on the label's advertising copy had been made from time to time, the color remained constant and the old style lettering was still used in the text. In September, 1946, Mr. Clark, merchandising manager of the company, was considering the possibility of changing the label of this and other products in the company's grocery line to modernize some of the features which ran counter to what he believed were more up-to-date industry practices.

What problems will he encounter in modernizing the containers for a premium grade breakfast cocoa?

2. A company making various abrasives, among them cut sheets of coated abrasive paper and cloth, proposed a service packaging plan in which it endeavored to follow the recommendations of the National Wholesale Hardware Association which stated that an "appreciable saving could be effected if manufacturers could package their products in quantities and shipping containers which could be sent to retail customers or consumers without the need for repackaging." Also the recommendation was made that manufacturers should mark their packages so that containers might be identified without opening. In accordance with these recommendations, the manufacturer of abrasives planned to offer service packaging which, according to the statements made to dealers, was to contain four distinct improvements: (1) standard packages, (2) component resale packages, (3) brand identification by color, (4) line identification by wrapper designs.

How should the company have gone about finding out what consumers and retailers need in order to have the manufacturers' packaging program serve their needs?

3. In February, 1955, the Coca-Cola Company introduced a larger sized bottle. For more than half a century, the 7-ounce bottle had been the standard size which was licensed to regional and local bottlers who bought their syrups from the Coca-Cola Company. The new bottles were called king-size 10-ounce, and family-size 12-ounce. Toward the end of the year it was reported that only about one third of the 1,100 franchised bottlers had been licensed to fill the larger-sized bottles. Competitors followed Coca-Cola's switch to bigger bottles and it was learned that only a fraction of the retailers planned to bring out the larger-sized bottle. These local bottlers objected on the one hand to going to big sizes because of the cost of new bottles and equipment. Others objected that the larger bottles tended to reduce income and take business away from the more profitable 7-ounce size. Other bottlers were reported to believe that while the larger bottles might come eventually they would be very slow in changing. Thus it appeared that in many parts of the American market there would be long delays in introduction of the larger containers.

Did this indicate that Coca-Cola made an unwise decision in increasing the size of the bottle?

How could Coca-Cola officials determine whether or not the higher costs would be offset by added volume?

Should family size (26 or 32 ounce) bottles be introduced?

4. Should a prominent manufacturer of perfumes and toilet preparations adopt pressurized spray containers for perfume? Since a low-pressure neutral gas was available to provide pressure, glass or other materials could be used for containers if so desired. What problems would the adoption of such containers involve? What was likely to be the effect of such adoption upon manufacturers of atomizers used for perfume and toilet preparations?

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3. *Distribution Policies*

Neither war booms nor depressions have changed the necessity for wise choice by manufacturers of policies relating to the middlemen through whom the final user is to be reached. The selection and utilization of the proper middlemen [1] require continuous study and willingness to change because, although changes may not be fundamental, they are sufficient to make or break the distributor who neglects them. The objective is to facilitate distribution through such channels as exist or may be created in such a way as to develop the greatest continued profit and, eventually, the most economical form of distribution. Theoretically, the manufacturer makes his choice among the existing channels of distribution upon the basis of the specific circumstances and environment with which he has to deal. A part of this environment is the financial capacity, the experience of the planning executives, and the practice of competitors and other business firms. The choices available in each instance depend upon a variety of facts, among which must be emphasized the types, functions, and activities of the different marketing institutions. The executives of the average manufacturing firm which does not completely shift the distribution of its goods to someone else will choose among the following policies:

1. Distributing through an agency which stands between the manufacturer and the wholesaler or other buyers. There are several types of such agencies, including brokers, manufacturers' agents, export merchants, and others.
2. Selling to wholesalers, who in turn sell to retailers and wholesale consumers. Here are both service wholesalers, general-line wholesalers, short-line wholesalers, cash-and-carry wholesalers, and many others.
3. Selling direct to retailers and dealers. Included are dealers who specialize not only as to types of goods but also as to the functions they perform. Here are short service and delivery retailers, cash-and-carry retailers; here are chain stores, department stores, independent stores, supermarkets; here are de luxe stores catering both to high incomes with high prices and to mass low-cost

[1] For more extensive treatment of important types, any one of the several standard texts on marketing may be consulted: Harold H. Maynard and Theodore N. Beckman, *Principles of Marketing* (New York, The Ronald Press Company, 1949); Charles F. Phillips and Delbert J. Duncan, *Marketing: Principles and Methods*, Third Edition (Homewood, Richard D. Irwin, Inc., 1956); Paul D. Converse and Harvey W. Huegy, *Elements of Marketing*, 5th Edition (New York, Prentice-Hall, Inc., 1952).

distribution as well. And for industrial goods, many types of dealers in equipment, materials, manufacturing supplies, supplies for retailers, and the like are solicited and supplied direct by manufacturers.

4. Selling direct to users or consumers. Some producers of consumer goods and relatively more producers of industrial goods have adopted a policy of selling direct to consumers or users of their products. Direct factory representatives, sales branches, branch stores, and other arrangements are utilized in effecting the direct contact.

5. A combination of two or more of the above channels. Instances of such divergences from single channel policies have grown steadily more common. In some cases they must be regarded as a transitional phase in the development from less direct to more direct channels of distribution. In other cases, the combination represents a stabilized set of policies.

The factors which play a part in a manufacturer's choice of marketing channels have to do, first of all, with the nature of the product to be distributed and the characteristics of users, buyers, and their buying habits. At one extreme, the market may comprise large numbers of ultimate consumers who may ordinarily have to be reached through middlemen; at the other extreme, a few definitely ascertainable users may exist who can be reached directly. The type of product or, more correctly, the type of demand for the product determines in many other cases whether the goods are to be sold in large lots, perhaps for the use of a few wholesale consumers, or in small amounts to ultimate consumers all over a country, and perhaps over the entire world. The characteristics of buying habits which have given rise to the classifications of convenience, shopping, or specialty goods will determine in part the size of the marketing task. The number of outlets necessary to reach consumers will be relatively smaller in the case of so-called specialty products than in the case of convenience goods.

Existing trade organizations constitute the second factor in the distribution policy chosen by a manufacturer. The existence of a smoothly working system of middlemen with influential contacts with buyers has, in times past, forced a company to take unusual risks if it departs from the use of customary channels. However, the continuing change in the position of particular types of middlemen presents risk likewise to the seller who blindly adheres to traditional channels. Basically, the existence of any class of middlemen depends in the long run on the adequate performance of marketing functions in competition with alternative channels. In not a few trades, the opinion of manufacturers that the retailers were not of sufficiently high caliber, that they did not possess merchandising and selling ability, at least in relation to particular products, that they lacked financial stability, has been an incentive toward the adoption of policies which would bring the consumer nearer to the manufacturer. Such statements, frequently repeated, as that wholesalers are doomed or that independent retailers must lose out to

chain stores, are premature because they neither take sufficient account of the economic evidence nor weigh the social and political factors involved.

During the postwar period, certain important changes took place, although no basically important new type of middleman appeared. The development of so-called discount houses constituted a familiar chapter in the addition of apparently new types of retailing to the existing organization. We have had previous examples of price-cutting retailers in the introduction of chains and mail-order houses, and later in the entrance of the super market into the retail distribution picture. The lessening importance of personal selling in retail establishments, together with increased advertising in both older and newer media such as radio and television, plus a continued favorable retail market, enabled retailers generally to stay in business in spite of deterioration of standards in salesmanship and service to buyers. The newer developments have not meant the disappearance of retailer types but have brought about certain realignments of functions and certainly some changes in attitude. In recent months the selling and pricing tactics of the automobile dealers highlight the failure in this field of many retailers to perform service to the satisfaction of the consuming public.

A. SELECTING THE CHANNELS OF DISTRIBUTION

The factors to be considered in selecting channels of distribution are the influence of any proposed choice upon sales volume and stability, the effect upon the gross margin secured by the manufacturer, and the effect upon operating costs incurred in carrying out the policy. If these are not properly related to each other, the desired volume and stability of net profit will not follow. Each of the major choices should, therefore, be subjected to the three tests indicated by these questions:

How does a particular channel affect volume of sales?
How does a particular channel affect the margins of profit to be secured?
How does a particular channel affect the costs necessary to carry out the policy?

Volume of Sales. The volume of sales, other things being equal, will depend upon the amount, aggressiveness, and intelligence of the sales effort put forth. In practice there are many obvious limitations to this principle, some based upon the changing character of buying habits as the market approaches saturation, others on the probability that, as the market is more intensively cultivated, competitors will be aroused. The amount of sales will depend upon the quality and amount of selling effort at every step in distribution, and especially in contact with the consumer.

It is obvious that no one choice gives a clear superiority over others. No

firm can afford to employ as many persons selling its product to consumers through its own outlets as might be selling it if that product were handled in retail stores generally. Nevertheless, specialization and better selling by a manufacturer may more than offset the larger exposure to sale and the indifferent selling effort of retail clerks in a much larger number of stores. The volume of sales secured by a manufacturer can be controlled more directly under distribution policies which eliminate either the wholesaler or the wholesaler and retailer. The manufacturer may employ and may train his salesmen so that they secure dealer cooperation which results in a larger amount of actual selling work to consumers. He may hire a larger number of salesmen to sell to the consumer, either in cooperation with retailers or independently, if he wishes increased sales.

Again, other things being equal, the closer the contact of a manufacturer's organization with the consuming public, the greater the possibility for the manufacturer to exert uniformly intensive effort. However, the closer the contact, the more strongly the limiting feature of expense operates to restrict what is called "exposure to sale." On this basis, therefore, the least effective selling organization for consumer goods would be the first type of organization, namely, that of selling through agencies who in turn sell to the wholesaler; and the most effective from the viewpoint of facilitating aggressive selling, that of selling directly to the consumer either through owned stores or through canvassers.

A qualification should be inserted at this point to prevent misunderstanding. Logical comparisons can be made only between channels on the basis of the same grade of execution of function. It is not logical, nor is it fair, to compare a good example of successful and intelligent selling through wholesalers with a poorly managed example of selling through retailers, or to do the reverse; just as it is neither logical nor fair to compare a well-managed chain store with a poorly managed independent store. It is entirely possible that the efficiency of management in any channel may offset much of the inherent disadvantage of lack of contact with the consuming public.

Lack of contact with retailers and consumers in a system of distribution through manufacturers' agents, selling houses, or wholesalers may be at least in part offset by various methods. The selling agent maintains specialty salesmen to sell to retailers. The wholesaler may have special men to go to retailers to demonstrate and to train clerks in the sale of special lines. The manufacturer who sells through wholesalers may have missionary salesmen who go to retailers, thereby performing a large portion of the wholesalers' selling function. The wholesaler, on the other hand, maintains delivery and continues, week in and week out, less intensive solicitation.

For some manufacturers, the smaller or larger expenditures for advertising direct to consumer and to retailers may serve to create recognition,

preference, or even demand on the part of the consumer; and on the part of the retailer, a willingness to stock, display, or push the product.

Gross Margin. Any consideration of gross margin as a basis for comparison of channels of distribution is likely to be clearer if we start with a firm which sells to consumers. A manufacturer who controls his own retail outlets, or has his own canvassers, sells to consumers at consumer prices. If these prices are comparatively as high as the prices quoted in independent retail stores for similar goods, the manufacturer gets what would correspond to the retailer's profit. His gross margin is increased but, obviously, his expenses have been likewise increased.

The manufacturer who adopts the policy of selling to retailers will find himself quoting jobbers' prices to some of the retailers, particularly those organized in large buying units, and quoting retailers' prices to a decreasing number of outlets. As a consequence, the total gross margin to be secured on actual volume of sales in many lines tends to become less for direct selling to retailers as compared with former prevailing conditions.

The chief difference between gross margins secured by selling direct to retailers and selling to wholesalers will depend upon the proportion of sales made to independent retailers who are not organized into buying associations of sufficient strength to demand and secure jobbing, or lower than jobbing, prices. Gross margin secured in selling to wholesalers will be less than that secured in sales to independent retailers but may well be greater than that secured in sales to powerful chains. Obviously laws such as the Robinson-Patman Act and laws prohibiting sale below certain price levels will have a bearing upon gross margin secured.

In the practice of many of the agencies between wholesaler and manufacturer, sales are made to wholesalers and larger retailers, or to smaller retailers, at prices which are essentially the same as those which would be quoted were the manufacturer selling to the same outlets through his own salesforce. The gross margin which the manufacturer who sells to these agencies receives is, therefore, practically the same as the gross margin which is secured by the manufacturer who does not use these agencies but sells directly to wholesalers. The commission which is paid to the agency is to be classified as an expense and not as a deduction from price in the calculation of gross margin.

Costs. A comparative analysis of the costs of carrying out the various policies shows that greatest cost is involved in those systems which go directly to the retail consumer. The job which must be performed in order to sell directly to the consumer, and to make deliveries to him as he demands, requires contacts with a much larger number of persons and the performance of all the functions which under other plans are divided between the manufacturer and one or more groups of middlemen. The manufacturer who

chooses to maintain an extensive sales organization, canvassers, or an extensive retail chain of stores will find that capital requirements are increased; where credit is given, credit risks and credit losses are increased; management difficulties and management costs are increased in all cases to an extent depending upon the basis used for comparison of previous experience. The manufacturer who plans to distribute to consumers through his own stores must be prepared, if he intends to do the whole job in that way, for large capital expenditures and relative inflexibility of expenses; for the huge problem of selection, training, and management of store personnel; against which he must place his chances of greater net profit and greater stability of net profit because of more intelligent, more aggressive selling, closer contact with consumer demand, and better merchandising.

The expenses of selling to retailers will, of course, vary with the policy to be adopted. In selling to a few large chain stores the expenses are small compared with costs of executing a policy of selling to thousands or several hundred thousand independent retailers. It has been pointed out that the margins will vary sometimes more than sufficiently to offset the difference in cost. In selling directly to retailers—independent retailers in particular—the costs include those of salesforce and advertising; those of maintaining adequate stocks for the purpose of delivery on retailer demand; those of credit risks and losses; in addition, of course, to those of interest charges and the necessary supervision and administration.

A comparison of these costs with the costs of selling to the wholesaler should reveal marked differences in absolute costs, but these differences may be obscured by practices which have developed in certain trades, particularly where the use of missionary salesmen in large numbers has been a feature of competition. In so far as the manufacturer carries stocks for prompt delivery to wholesalers, in so far as missionary salesmen get a sizable proportion of the wholesaler's business for him—in some cases that proportion amounts to two-thirds—the costs of selling through wholesalers increase.

The same general type of analysis may be applied to industrial companies. For expensive and heavy equipment, direct contact with buyer-users is usually dictated by considerations of effectiveness and cost. Buyers are relatively few and they can be pinpointed in any distribution plan. On the other hand such products as detergents and lubricants may be used by all types of manufacturing concerns as well as by many others. The numbers of industrial buyers are large and specialized dealers have been developed.

The discussion up to this point has been confined primarily to firms which carry out uniform policies. Many firms have adopted combinations of channels. In fact, such combinations are general in certain trades. A particular firm may, therefore, find itself in a position in which it gets the advantages of several methods without suffering corresponding disadvantages. Again,

it may find itself securing the disadvantages of several different plans or policies without obtaining corresponding advantages. The manufacturer feels, often rightly, that this latter is the common case. He feels that he is presumably selling through wholesalers but is performing the wholesale functions for them, that the wholesalers are getting paid for distribution work which they are not performing. On the other hand, it is claimed by the wholesaler that the margins are insufficient to do what the manufacturer wants done.

The manufacturer selling directly to retailers may find it necessary to make daily or even more frequent delivery to retailers through branches which he must establish because retailers do not carry full stocks of his line. When, in addition, he finds that independent retailers do not sell his product intelligently or aggressively, he is inclined to take the further step, if his line is sufficiently broad to warrant it, of establishing his own retail outlets.

No marketing policy relating to channels can be permanent or unchangeable because the underlying conditions and assumptions are changing. Because of the variety of consumers, retailers, and wholesalers, plans which are based on the reactions of minorities may for a time be successful. But such plans bear the germ of their own destruction. A few firms may be successful in house-to-house selling, but a multiplication of firms using it destroys the effectiveness of the method. The relative advantage of direct-to-retailer selling is lessened as competitors adopt the plan.

Any channel of distribution or method of selling policy which violates the fundamental principle that the consumer is to be served with commodities at reasonable costs is bound to encounter destruction. Whether we shall ever again have a degree of stability in channels which will approach that of the first half of the nineteenth century cannot be predicted with assurance. We are in the midst of many changes which will take years to work themselves out. The fundamental soundness of some of them is still open to question. For none of them do we have satisfying data, but we have reason to expect enlightenment before many years have passed.

16. HARRIS-SEYBOLD COMPANY (B). Determining How to Distribute Lithographic Chemicals and Supplies [1]

In the fall of 1950, the vice president in charge of sales of the Harris-Seybold Company was considering whether changes should be made in the distributive organization in order to increase the sales effort for lithographic chemicals and supplies.

The company embarked upon the production and sale of lithographic chemicals and supplies in 1938, and sales were about $100,000 in 1940. After the war, sales increased from $250,000 in the first postwar year to $465,000

[1] See Harris-Seybold Company (A) case for introduction and background, p. 47.

in 1949, and executives believed that the company had reached the point where it could make a stronger bid for a larger share of the market. Manufacturing controls had been perfected to assure a uniformly high quality of product, and the research laboratories were functioning effectively and promised continued improvements in the line.

The chemical line consisted of 30 different items used in making lithographic plates. Examples of related supplies, some of which were made by other manufacturers and sold by Harris-Seybold, included blankets for use on offset presses and presensitized plates.

Seventy-five per cent of Harris-Seybold's sales of lithographic chemicals and supplies was made through one large independent dealer whose salesmen traveled out of 10 branch offices in principal cities of the United States. The firm had been given exclusive distribution rights for 32 states. It sold no directly competitive products, but handled many related items of other manufacturers. Harris-Seybold also used one other dealer in the United States, two dealers in Canada, and sold chemicals and supplies direct to users through its machinery salesforce in the southern states.

The vice president in charge of sales also was interested in ascertaining the most desirable way of distributing bindery supplies such as paper cutting knives, and resale equipment which included a die press, a special collator and other products. These items were being sold direct to users by Harris-Seybold machinery salesmen.

Chemicals, supplies, and resale equipment accounted for less than 10% of the firm's total sales. Individual orders for chemicals and supplies usually ranged in value from $50 to $500. Prices on resale equipment were under $5,000. More than 80% of the company's sales volume came from offset lithographic presses which sold from $10,000 to $200,000 and paper cutters which ranged in price from $4,000 to $28,000. The average sale of these machines was between $25,000 and $30,000. The gross margin on products manufactured by the company was from 40% to 55%; on supply and resale items, it often was only 25%.

In 1950, the company sold its machinery direct to users through 42 salesmen who worked out of 13 branch and district offices. While the same salesforce was used for resale equipment and bindery supplies, this was contrary to the more common practice of other manufacturers who used dealers. The latter maintained supply houses in major cities and traveled their own salesforces. There were about 150 graphic arts supply houses in the country. Most of them were general supply houses but some were primarily outlets for ink which carried other items in special supply departments.

The vice president in charge of sales favored the inclusion of supplies and resale equipment in the company's product line. They served as a stabilizing factor in periods of declining business. By handling products of other manu-

facturers, the company was able to pretest machines which it might later wish to manufacture. He pointed out that the presence of supplies in the line frequently enabled the salesmen to obtain immediate sales results from good will calls on machinery prospects. Also, it was relatively easy to sell supplies to a person who had just bought a machine.

The vice president advanced several arguments against distributing supplies through the regular salesforce. Morale was adversely affected, he believed, since men trained to sell expensive machinery were not favorably inclined toward selling the relatively low priced supplies. The sale of large machines often came after extensive negotiations and required much technical knowledge and a low pressure approach. Sales of supplies were made more quickly and did not require the same technical background on the part of the salesman.

The cost of selling the relatively inexpensive items through the machinery salesforce appeared to be excessive. The company had arrived at a figure of $65 per call. If only salesmen's pay were considered, the average cost per call was $22.50. The company found that in 1949, 75% of its supply and resale equipment sales was made to buyers who had not purchased Harris-Seybold machinery. The vice president in charge of sales believed that much of the business had been with small users who were not prospects for Harris-Seybold machines, and that calls on these accounts were unprofitable.

The distribution problem for lithographic chemicals and supplies was referred to the market study department, which first tried to estimate the size of the market for chemicals by regions and for the United States as a whole. An analysis of company records showed that annual sales of lithographic chemicals in the past had amounted to $500 per impression cylinder in the offset press.[2] This figure was corroborated in discussions with dealers and customers. (See Exhibit 1.)

In a second approach to a measure of the total market, the chemical sales of the company's principal competitors were estimated. The estimate, added to Harris-Seybold's sales of $465,000 in the calendar year of 1949, gave a total of $2,600,000. The market study department then doubled this figure to account for 100 or more other manufacturers who made a few specialty items. Virtually all ink companies made developing ink, and, in addition, one or more small local manufacturers were located in most lithographic centers. The resulting total of $5,200,000 was in excess of $500 per cylinder.

Three alternative plans for distributing the chemicals were suggested by the market study department after reviewing the problem. Plan A involved no major change. The dealer organization would be retained, and three Harris-Seybold technical representatives would continue to work with dealer salesmen on sales problems.

[2] Exhibit 1 gives the number of lithographic press cylinders and the estimated market for chemicals by states.

Exhibit 1. HARRIS-SEYBOLD COMPANY. Estimated Total Yearly Consumption of Litho Platemaking and Press Chemicals in the United States

State	No. cylinders 17 by 22 and larger. No. known Harris Seybold plus competitive machines	Estimated yearly consumption of litho platemaking and press chemicals ($500 per cylinder)
Alabama	15	$ 7,500
Arkansas	5	2,500
Arizona	5	2,500
California	486	243,000
Colorado	60	30,000
Connecticut	99	49,500
Delaware	6	3,000
Florida	30	15,000
Georgia	82	41,000
Idaho	0	0
Illinois	1,008	504,000
Indiana	150	75,000
Iowa	42	21,000
Kansas	50	25,000
Kentucky	52	26,000
Louisiana	21	10,500
Maine	7	3,500
Md and D.C	321	160,500
Massachusetts	268	134,000
Michigan	244	122,000
Minnesota	241	120,500
Mississippi	8	4,000
Missouri	354	177,000
Montana	5	2,500
Nebraska	27	13,500
Nevada	1	500
New Hampshire	9	4,500
New Jersey	171	85,500
New Mexico	0	0
New York	1,419	709,500
North Carolina	25	12,500
North Dakota	5	2,500
Ohio	660	330,000
Oklahoma	37	18,500
Oregon	39	19,500
Pennsylvania	390	195,000
Rhode Island	40	20,000
South Carolina	7	3,500
South Dakota	3	1,500
Tennessee	72	36,000
Texas	146	73,000
Utah	23	11,500
Vermont	6	3,000
Virginia	52	26,000
Washington	61	30,500
West Virginia	18	9,000
Wisconsin	252	126,000
Wyoming	1	500
Total	7,023	$3,511,500

The principal advantage of selling through dealers as advanced by the market study department was that selling expenses would decrease when sales declined. The maintenance of a proper balance between expenses and volume would be the dealer's problem instead of the company's. As most printing shops preferred to buy from as few sources as possible, a dealer selling a complete line of supplies had an advantage over an organization specializing on a limited number of items.

Selling through dealers, however, meant that sales expenses would increase as sales volume increased. The company also would have to compete with manufacturers of allied supplies for the sales effort of each dealer, and there was no accurate way of determining just how much attention a particular product line was receiving from dealer salesmen.

Exhibit 2 consists of a 5-year operating forecast submitted by the market study department to sales executives to be used in appraising the desirability of the first proposal.

Plan B proposed selling chemicals direct to users. The independent dealer would be dropped. The company then would build a salesforce of 16 salesmen, and open five new offices with shipping facilities. The new offices would require 18 employees.

A pro forma 5-year income statement, based on Plan B going into effect at the start of the new fiscal year on July 1, 1951, is presented in Exhibit 3. In forecasting sales, an allowance was made for a 20% reduction in the first year's sales volume in areas formerly covered by the independent dealer. The annual rates of sales increase after July 1, 1952, were expected to be about double those of Plan A because of the greater sales coverage to be obtained by the company's own salesmen.

Executives believed that the proposed chemical sales organization eventually could handle the resale items which could not be properly or economically sold by the machinery salesmen. Accordingly an allowance was made for estimated supply sales. This was considered to be only a token allowance, however, since the market study department believed that with proper effort supply sales could be larger than chemical sales. This would not be true if dealers were used because they already handled many of the same resale supplies and equipment.

In estimating sales under Plan B, no value was assigned to the help which might come from the company's machinery salesmen. It was believed that a sound chemical sales program could not be based on their efforts. The market study department believed that some savings in the estimated selling expenses might be effected but that they would be offset largely by prorated charges from the machinery sales group to cover their efforts and the use of their facilities. There would be some increase in home office expense. In estimating office rent, executives had in mind the type of space usually occu-

Exhibit 2. HARRIS-SEYBOLD COMPANY. Plan A—5 Yr. Operating Forecast

	Actual operating statement for year ending 6/30/40	% to gross shipment	Estimated operating statement for year ending 6/30/50	% to gross shipment	Estimated operating statement for year ending 6/30/51	% to gross shipment	Estimated operating statement for year ending 6/30/52	% to gross shipment	Estimated operating statement for year ending 6/30/53	% to gross shipment	Estimated operating statement for year ending 6/30/54	% to gross shipment
Gross shipments	$383,244	100	$460,000	100	$590,000	100	$700,000	100	$800,000	100	$900,000	100
Cost of shipments	134,381	35.1	161,000	35	200,000	34	231,000	33	264,000	33	297,000	33
	$248,862	64.9	$299,000	65	$390,000	66	$469,000	67	$536,000	67	$603,000	67.0
Disc to dealers	$118,204	30.8	$143,520	31.2	$184,000	31.2	$218,400	31.2	$249,600	31.2	$280,800	31.2
Cash discounts	4,559	1.2	5,520	1.2	7,100	1.2	8,400	1.2	9,600	1.2	10,800	1.2
Ret and allowances	2,866	0.7	3,220	0.7	4,120	0.7	4,900	0.7	5,600	0.7	6,300	0.7
	$125,631	32.7	$152,260	33.1	$195,000	33.1	$231,700	33.1	$264,800	33.1	$297,900	33.1
	$123,232	32.2	$146,740	31.9	$195,000	32.9	$238,300	33.9	$271,200	33.9	$305,100	33.9
Eng and dev.	$ 33,000	8.7	$ 39,000	8.5	$ 47,000	7.9	$ 47,000	6.7	$ 50,000	6.2	$ 50,000	5.5
Selling	29,400	7.7	53,100	11.5	74,000	12.5	74,000	10.6	84,000	10.5	84,000	9.3
Adm and general	9,000	2.3	10,800	2.3	14,000	2.4	16,000	2.3	18,000	2.3	18,000	2.0
Prov for ret	2,850	0.7	1,700	0.4	2,500	0.5	3,000	0.4	3,000	0.4	3,000	0.3
	$ 74,250	19.4	$105,500	22.9	$137,500	23.3	$110,000	20.0	$155,000	19.4	$155,000	17.1
Operating income	$ 48,081	12.8	$ 41,240	9.0	$ 57,500	9.6	$ 98,300	13.9	$116,200	14.5	$150,100	16.7
Other income	3,991	1.0	4,800	1.0	1,200	0.2	1,200	0.2	1,200	0.2	1,200	0.1
	$ 52,072	13.8	$ 46,040	10.0	$ 58,700	9.8	$ 99,500	14.1	$117,400	14.7	$151,300	16.8
Other deductions	6,820	1.8	6,600	1.4	4,800	0.8	4,800	0.7	4,800	0.6	4,800	0.5
Income before taxes	$ 46,152	12.0	$ 39,440	8.6	$ 53,000	9.0	$ 94,700	13.4	$112,600	14.1	$146,500	17.3

Exhibit 3. Harris-Seybold Company. Plan B—5 Yr. Operating Forecast

	Actual operating statement for year ending 6 30 49	% to gross shipment	Estimated operating statement for year ending 6 30 50	% to gross shipment	Estimated operating statement for year ending 6/30 51	% to gross shipment	Estimated operating statement for year ending 6 30 52	% to gross shipment	Estimated operating statement for year ending 6 30 53	% to gross shipment	Estimated operating statement for year ending 6/30 54	% to gross shipment
Gross shipments	$383,244	100	$460,000	100	$590,000	100	$582,000	100	$830,000	100	$1,030,000	100
Cost of shipments	134,381	35 1	161,000	35	200,000	34	192,000	33	274,000	33	339,000	33
	$248,863	64 9	$299,000	65	$300,000	66	$390,000	67 0	$556,000	67 0	$ 691,000	67 0
Disc to dealers	$118,204	30 8	$143,520	31 2	$184,000	31 2	$ 39,600	6.8	$ 45,000	5 4	$ 49,500	4 8
Cash discounts	4,550	1 2	5,520	1 2	7,100	1 2	7,000	1 2	10,000	1 2	12,000	1 2
Ret and allowances	2,860	0 7	3,220	0 7	4,109	0 7	4,000	0 7	5,800	0 7	7,200	0 7
	$125,631	32.7	$152,260	33 1	$195,000	33.1	$ 50,600	8 7	$ 60,800	7 3	$ 68,700	6 7
	$123,232	32 2	$146,740	31 9	$195,000	32 0	$339,400	58 3	$495,200	59 7	$ 622,300	60 3
Eng and development	$ 33,000	8 7	$ 39,900	8 5	$ 47,000	7 9	$ 47,000	8 0	$ 50,000	6	$ 50,000	5.0
Selling	29,400	7 7	53,100	11 5	74,000	12 5						
Selling †							74,000	12 7	74,000	8 9	74,000	7 2
Selling ‡							242,600	41 7	254,000	30 6	263,000	25 6
Adm and general	9,000	2 3	10,800	2 3	14,000	2 4	14,000	2 3	16,000	2 0	16,000	1 6
Prov for ret	2,850	0 7	1,700	0 4	2,500	0 5	3,000	0 5	3 000	0 4	3,000	0 3
	$ 74,250	19 4	$105,500	22 9	$137,500	23 3	$380,600	65 2	$397,000	47 9	$ 406,000	39 7
Operating income	$ 48,981	12 8	$ 41,240	9 0	$ 57,500	9 6	$ 41,200 *	6 9 *	$ 98,200	11.8	$ 216,300	20 6
Other income	3,991	1 0	4,800	1 0	1,200	0 2	1,200	0 2	1,200	0 2	1,200	0 2
	$ 52,972	13 8	$ 46,040	10 0	$ 58,700	9 8	$ 40,000 *	6 7 *	$ 99,400	12.0	$ 217,500	20 8
Other deductions	6,820	1 8	6,600	1 4	4,800	0 8	4,800	0 7	4,800	0 6	4,800	0.5
Income before taxes	$ 46,152	12.0	$ 39,440	8 6	$ 53,900	9 0	$ 44,800 *	7 4 *	$ 94,600	11.4	$ 212,700	20 3
Supply sales							$100,000		$300,000		$ 500,000	
Profit margin (15%) ¶							15,000		45,000		75,000	
Income before taxes							$ 29,800 *		$130,600		$ 287,700	

* Indicates Loss
† Present Selling Expense, Including 3 Field Representatives
‡ Additional Sales Expense for Direct Selling (See Col 11, Ex 41, Plus 5% of Direct Sales to Cover Freight and Reshipping
¶ Avg. Discount on Supply Items Estimated at 25%, of Which We Estimate 10%, Should Be Applied to Handling

pied by supply companies rather than the more elaborate display space used by the machinery group.

The market study department believed that chemical sales could be increased more rapidly under Plan B than under any other feasible program. By using its own sales organization, the company would have complete control over the sales effort and the handling of customer complaints. Full advantage could be taken of all sales helps. Executives believed that the company, as the result of direct contact with users, would be more sensitive to the needs and desires of the market, and thereby would be better able to guide research activities. The national selling organization which the plan would create would be properly staffed, have adequate facilities and have a tie with a well-known machinery sales and service organization. Other manufacturers of lithographic supplies probably would be attracted to Harris-Seybold as a potential distributor.

Adoption of Plan B would mean that the chemical division would operate at a loss during the first year, according to the sales and expense estimates. Also, it probably would alienate a number of lithographic supply manufacturers and dealers who had cooperated with Harris-Seybold machinery salesmen.

Exhibit 4 lists in detail the changes Plan B would require.

Plan C was similar to Plan B except that it provided for 10 instead of 16 salesmen. It was believed that a salesforce of 10 would give the company a sales effort approximately equal to that which had been obtained in the past with dealers. The company would limit its shipping points to its present offices.

In estimating annual sales under Plan C, the company allowed for a 20% reduction in sales during the first year in areas formerly covered by dealers (Exhibit 5). Also, a 50% reduction in sales the first year was assumed for areas in which shipping points formerly maintained by dealers would be eliminated (Exhibit 6). The estimated annual increases in sales were the same as under Plan A.

Plan C did not require expenses so large as to cause an initial loss on chemical sales, yet it afforded the company an opportunity to enter the supply field aggressively. A disadvantage was that some sales would have to be sacrificed when the plan was put into effect. The plan would provide no greater sales coverage than had been obtained through dealers.

In the fall of 1950, the vice president in charge of sales was faced with the task of deciding which of the proposed plans should be adopted.

Exhibit 4. Harris-Seybold Company. Plan B—Supporting Data

Chemicals to be stocked in the following H-S Co offices—new offices to be opened where necessary	Present distributor and location of stock	Territory covered	No of cylinders (No known H S Co plus 50% for competitive presses) (1)	No of shops (est 2 per cylinder) (2)	Shipments H S Co chemicals Jan Dec 1940 (3)
Boston	Boston	Mass	208	134	$ 18,613
		R I	40	20	1,460
		Conn	90	50	5,087
		Vt	6	3	184
		N H	9	4	615
		Maine	7	3	174
			420	214	$ 27,001
Detroit	Detroit	Mich	243	122	$ 20,783
		½ Ind	75	38	2,259
			319	160	$ 23,342
New York City	New York City	N Y	1,419	710	$ 50,472
		N J	171	85	16,241
		Penn	390	195	23,152
		Delaware	6	3	146
			1,986	993	$ 90,511
Cincinnati	Cincinnati	½ Ohio	330	165	$ 11,257
		½ Ind	75	38	2,250
		Kentucky	52	26	800
		W Va	18	0	1,010
			475	238	$ 15,335
Chicago (May St or Washington St)	Chicago	Ill	1,008	504	$ 34,324
		Wisc	252	126	6,724
		Minn	241	120	7,332
		Iowa	42	21	2,238
		Neb	27	14	3,243
		N D	5	3	10
		St Louis	152	76	2,810
			1,727	863	$ 56,601
Kansas City	Kansas City	Kansas, Mo	50	25	6,028
		Less St Louis	202	101	12,669
			252	126	$ 18,697
Baltimore	Baltimore	Md and D C	321	160	$ 21,092
		Virginia	52	26	464
			373	186	$ 21,556
Los Angeles and San Francisco	Los Angeles and San Francisco	Calif	486	243	
		Oregon	30	10	
		Wash	61	32	
		Nevada	1	1	
		Utah	23	12	
		Arizona	5	3	
		Idaho	5	2	
			620	310	$ 34,000 (Est)
Major changes contemplated in the following Denver		New Mexico	2	1	
		Colorado	60	30	
		Montana	5	2	
		Wyoming	1	1	
		S. Dakota	3	1	
			71	35	$ 7,100 (Est)

Shipments per cylinder	No of dealer representatives	Shipments H-S Co chemicals per man	No of men required to contact ½ the shops once per month (5 calls per day, 1,250 calls per year)	Cost of men ($12,000 each per year) ‡	Cost of office personnel and shipping personnel ¶	Rent, utilities, etc	Total cost	Total yearly consumption of litho platemaking and press chemicals	% of total consumption attained in 1949
(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
69									
37									
60									
31									
72									
25									
63	1	$27,061	1	$ 12,000	$ 5,100	$ 3,600	$ 20,700	$ 214,500	12 6
85									
15									
75	1	$23,342	1	$ 12,000	$ 5 100	$ 3,600	$ 20,700	$ 150,500	14 6
35									
05									
50									
24									
45	5	$18 102	4	$ 30,000	$ 5 100		$ 41,000	$ 993,000	9 1
34									
15									
15									
57									
32	1	$15,335	1	$ 12,000	$ 5,100	$ 3,600	$ 20,700	$ 237,500	6 5
31									
24									
31									
51									
121									
182									
33	5	$11,338	1	$ 30,000	$ 5,100		$ 41,100	$ 863,500	0.6
121									
62									
74	1	$18,097	1	$ 12,000	$ 5,100	$ 3,600	$ 20,700	$ 126,000	14.8
66									
9									
58	1	$21,556	1	$ 12,000	$ 5,100	$ 3,600	$ 20,700	$ 186,500	11.6
55	..		2	$ 24,000	$10,200	.	$ 34,200	$ 310,000	11.0
100	3	$ 2,366						$ 35,500	20.0

Exhibit 4. HARRIS-SEYBOLD COMPANY. Plan B—Supporting Data (*Continued*)

Chemicals to be stocked in the following H-S Co offices—new offices to be opened where necessary	Present distributor and location of stock	Territory covered	No of cylinders (No known H S Co plus 50% for competitive presses) (1)	No of shops (est 2 per cylinder) (2)	Shipments H S Co chemicals Jan Dec 1930 (3)
H-S Co - Southern Dist		N C	25	17	
		S C	7	1	
		Ga	82	41	
		Fla	30	15	
		La	21	10	
		Tenn	72	36	
		Ala	15	8	
		Texas	136	73	
		Ark	5	3	
		Okla	47	18	
		Miss	8	1	
			118	221	$ 32,775
H-S Co - Cleveland and Akron		½ Ohio	330	165	$ 11,257
					$438,000‖

* Excludes Canada and Export
† Shipped Largely by Ex-dealer
‡ Includes Est Compensation, Traveling Expenses, Ret Plan, etc
¶ Est Compensation for One Stenographer and One Shipping Clerk for Each Office
§ Represents Compensation for 18 People
‖ Covers Only 13 Representatives—3 Included in Present Sales Expense

Shipments per cylinder	No. of dealer representatives	Shipments H-S Co. chemicals per man	No. of men required to contact ½ the shops once per month (5 calls per day, 1,250 calls per year)	Cost of men ($12,000 each per year) ‡	Cost of office personnel and shipping personnel ¶	Rent, utilities, etc.	Total cost	Total yearly consumption of litho platemaking and press chemicals	% of total consumption attained in 1949
(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
73								$ 224,000	14.6
51			1					$ 105,000	
48			16	$156,000	$15,000§	$18,200	$210,000	$3,511,500*	9.6

Exhibit 5. Harris-Seybold Company. Plan C—5 Yr. Operating Forecast

	Actual operating statement for year ending 6 30 49	% to gross shipment	Estimated operating statement for year ending 6 30 50	% to gross shipment	Estimated operating statement for year ending 6 30 51	% to gross shipment	Estimated operating statement for year ending 6 30 52	% to gross shipment	Estimated operating statement for year ending 6 30 53	% to gross shipment	Estimated operating statement for year ending 6 30 54	% to gross shipment
Gross shipments	$383,244	100	$400,000	100	$590,000	100	$570 000‡	100	$620,000	100	$720,000	100
Cost of shipments	134,381	35 1	161,000	35	200,000	34	171,600	33	204,600	33	237,600	33
	$248,863	64 9	$209,000	65	$390 000	66	$310,400	67 1	$415,400	67	$482,400	67
Disc to dealers	$118,204	30 8	$113,520	31 2	$184 000	31 2	$ 39 600	7 6	$ 45,000	7	$ 49,500	6 9
Cash discounts	4,550	1 2	5,520	1 2	7 100	1 2	6,240	1 2	7,400	1 2	8 700	1 2
Ret and allowances	2,866	0 7	3,220	0 7	4 100	0 7	3 610	0 7	4,400	0 7	5,000	0 7
	$125,631	32 7	$152,260	33 1	$195,000	33 1	$ 49,480	9 5	$ 56,800	9 2	$ 63,200	8 8
	$123,232	32 2	$146,740	31 9	$195 000	32 0	$390,000	57 6	$358 600	57 8	$419,200	58 2
Eng and development	$ 33,000	8 7	$ 30,000	8 5	$ 47 000	7 9	$ 47,000	9 0	$ 46,800	7 5	$ 50 000	7.0
Selling	29,400	7 7	53,100	11 5	74,000	12 5						
Selling *							74,000	14 2	74 000	11 9	74,000	10 2
Selling †							131 000	25 1	133,500	21 6	138,000	19 2
Adm and general	9,000	2 3	10,800	2 3	14,000	2 4	13,000	2 6	13 000	2 6	16,000	2 1
Prov for ret	2,850	0 7	1,700	0 4	2 500	0 5	3,000	0 6	3,000	0 5	3,000	0 4
	$ 74,250	19 4	$105,500	22 0	$137 500	23 3	$268 000	51 5	$270,300	44 1	$281,000	38 8
Operating income	$ 48,981	12.8	$ 11 240	9 0	$ 57 500	9 6	$ 32,000	6 1	$ 88,300	13 7	$138 200	19 4
Other income	3,901	1 0	4,800	1 0	1,200	0 2	1,200	0 2	1,200	0 2	1,200	0 2
	$ 52,972	13 8	$ 16,040	10 0	$ 58 700	9 8	$ 33 200	6 3	$ 89,500	13 9	$139 400	19 6
Other deductions	6,820	1.8	6 000	1 4	4 800	0 8	4 800	0 8	4,800	0 8	4,800	0 7
Income before taxes	$ 46,152	12 0	$ 39 240	8 6	$ 53 900	9 0	$ 28 400	5 5	$ 84,700	13 1	$134 600	18 9
Supply sales							$ 50 000		$150,000		$250 000	
Profit margin (15%) ¶							7 500		22,500		37,500	
Income before taxes							$ 35,900		$107,200		$182,100	

* Present Selling Expense, Including 3 Field Representatives
† Additional Selling Expense for Direct Selling (See Col 7, Ex 6), Plus 5% of Direct Sales to Cover Freight and Reshipping
‡ (See Col 1, Ex 6)
¶ Avg Discount on Supply Items Estimated at 25%, of Which We Estimate 10% Should Be Applied to Handling

Exhibit 6. HARRIS-SEYBOLD COMPANY. Plan C—Supporting Data

Chemicals to be stocked in following H-S Co offices	Dealer stocks to be eliminated	Estimated sales volume, year ending 6 30 52 (1)	Loss of volume (50%) owing to elimination of local stock (2)	No shops in area served by present shipping points (3)	No additional representatives required to give coverage equivalent to that presently obtained from dealers (4)	Cost of representatives ($12,000 per year) (5)	Cost of office personnel and shipping personnel (6)	Total cost (7)
New York City	New York City	$144,800		903				
	Boston	43,300	$21,650	215				
	Baltimore	34,500	17,250	186				
		$222,600	$38,900	1,304	3	$36,000	$10,200	$ 46,200
Chicago and St Louis	Chicago	90,700		863				
	Kansas City	20,000	14,950	128				
		$120,600	$14,050	991	2	$24,000	$10,200	$ 34,200
Los Angeles and San Francisco	Los Angeles and San Francisco	54,400	0	310	1	$12,000	$ 5,100	$ 17,100
Cleveland . .	Cincinnati	24,500	12,250	258				
	Detroit	37,350	18,675	160				
		$ 61,850	$30,925	308	1	$12,000	0	$ 12,000
Totals		$459,450	$84,775	3,003	7 *	$84,000	$25,000	$109,500
Less 20% owing to elimination of dealer		91,000						
Less loss of volume .		84,775						
		$282,800						
Present sales arrangement to be maintained in the following locations								
H-S Co, Cleveland	$18,000			105				
H-S Co, Atlanta, Dallas	50,000			224				
H-S Co, Canada	15,000							
Denver	9,000			35				
Export . . .	18,500							
		$130,500		3,517				
Anticipated sales gain during fiscal year 1951–1952		$413,300						
		109,000						
		$522 300						

* Does Not Include 3 Field Representatives Presently Contemplated.

17. POCKET BOOKS, INC. Product Policy; Distribution Methods and Policies

The firm of Pocket Books, Inc., was founded in 1939 by Mr. Robert F. DeGraff as a means of publishing and distributing low-priced paper-bound books. The company enjoyed considerable success from the start, and as late as 1946, it still accounted for about 60% of the total sales of such books. During the postwar years the field expanded very rapidly, and in 1952, 10 major firms sold about 250,000,000 copies of some 800 titles with an estimated retail value in excess of $65,000,000. Pocket Books, Inc., held its leading position, and in October, 1953, executives estimated that its current sales rate was about 10% to 20% above that of its nearest competitor. By mid-1953 the company had sold over 450,000,000 books, which was considerably more than any other publishing firm had ever sold. Of the some 1,000 titles published, approximately 350 were in print. About 50 titles had sold more than 1,000,000 copies each; four titles (*How to Win Friends and Influence People, The Pocket Cook Book, Pocket Dictionary,* and *Baby and Child Care*) had tipped the 3,000,000 mark, and the last title listed had sold more than 5,000,000 copies. Typically, about 300,000 copies were produced in a first printing, and if a title proved to be unusually popular, it was reprinted within a few months. About 10% of each printing was retained to fill reorders, and the remainder was distributed on the basis of standing orders.

Product and Price Policies. The company's original policy of "good books at low prices for sale to a wide audience" still constituted its basic product policy. With a few exceptions, all publications were reprint editions of books originally published by other firms in hard-cover editions. In spite of large increases in production costs, the initial price of 25 cents had been retained for more than two-thirds of all titles. Beginning in 1951, two new price lines, "cardinal editions" and "cardinal giants" had been issued to retail for 35 cents and 50 cents, respectively. A recent study revealed the following percentage cost increases in various categories of labor and materials from 1945 to 1953:

Material		*Labor*	
Cover paper	Up 75%	Compositors	Up 190%
Text paper, free sheet	Up 115%	Engravers	Up 185%
Text paper, ground wood	Up 87%	Pressmen	Up 170%
Binding paper	Up 94%	Bindery workers	Up 180%

Substantial price increases had been avoided only by the development of new production and marketing techniques and by the substitution of less expensive materials wherever possible. For instance, among the most recent cost-saving innovations were: adoption of a highly compact type face for use on most books, elimination of blank sheets in the front and back of books, and substitution of newly developed varnishes for use in treating cover paper instead of the more expensive lamination process. While some

lowering of standards for the physical quality of books had been necessary, executives believed that the quality of Pocket Books compared favorably with that of competing publications. Mr. Freeman Lewis, executive vice president, estimated that $980,000 in production costs could have been saved in 1952 by the adoption of the lower physical specifications used by a leading competitor.

The majority of all books published by Pocket Books, Inc., was in the area of light fiction.[1] However, as the leading firm in the industry, executives felt that the company had a strong obligation to uphold publishing standards by the regular issuance of the works of authors in other areas where the sales possibilities were frequently less favorable. It had avoided concentrating on the "sex and sadism" themes which had proved very profitable for a few competing firms, but had contributed to the greatest wave of book censorship in many years.

Mr. James Jacobsen, vice president in charge of sales, pointed out that executives were constantly seeking new answers to the question: "How can we get across to the public the idea that we are the best paper-bound publishing firm in the world?" He expressed a lack of confidence in advertising as a method of accomplishing this objective and pointed to a 1946 imprint advertising campaign which had been considered a failure. Executives doubted that very many people bought books by imprint; instead, they thought that title, author, and cover were probably the main factors affecting consumer selection and believed that the best "imprint advertising" was the publication of books that people enjoyed reading. The most recent venture in attempting to keep its name before the public as "the best and most responsible reprint house," was a series of 12 50-cent books published in 1953, featuring the paintings of great artists, including Degas, Dufy, Van Gogh, Rembrandt, Botticelli, Utrillo, Renoir, El Greco, Matisse, Cézanne, and Pissarro, followed by a written commentary on the style and contribution of each artist. The preparations of plates had involved an unusually heavy investment, and the project had been undertaken in the expectation that small losses might be incurred. However, sales were better than anticipated (over 1,000,000 copies had been sold by December, 1953), and the series showed promise of making a fair profit.

Records. In January, 1953, Pocket Books, Inc., began an experiment to determine whether the principles developed in book publication and distribution could be applied to the field of recorded music. A new line of seven-inch "Bell" records, which played for the same length of time as the standard 10-inch size, was introduced in four "test" cities at a price of 35 cents in contrast to the usual price of 89 cents for 10-inch popular music records. Sales during the initial three months' test were considered satisfactory, and

[1] See Exhibit 1 for a list of 1953 titles.

Exhibit 1. POCKET BOOKS, INC. Partial List of Titles Issued in 1953

CARDINAL GIANTS - 50 CENTS

Durant	*The Story of Philosophy*	Van Loon	*The Story of Mankind*
		Mason	*Stars on the Sea*

CARDINAL EDITIONS—35 CENTS

Street and Childers	*Tomorrow We Reap*	Williams	*Flesh and the Dream*
Ullman	*The White Tower*	Mager	*The Pocket Household Encyclopedia*
Wilson	*My Six Convicts*	Buck	*Pavilion of Women*
Street	*Tap Roots*	Boccaccio	*Tales from the Decameron*
Aldridge and Bourjaily	*Discovery*	Twain	*A Connecticut Yankee in King Arthur's Court*
Crabb	*Dinner at Belmont*	Thane	*Yankee Stranger*
Freeman	*Fight Against Fears*	Street	*Oh, Promised Land*
Algren	*The Man with the Golden Arm*	Haggard	*Devils, Drugs, and Doctors*
		Yerby	*A Woman Called Fancy*
Brooks	*The Producer*	Carnegie	*How to Stop Worrying and Start Living*
Brown	*The Southern Cook Book*	Buck	*God's Men*
Robbins	*A Stone for Danny Fisher*	Bourjaily	*Discovery #2*
Robinson	*The 100 Most Important People*	McNeilly	*Mathew Steel*
		Mason	*Eagle in the Sky*
Davis	*The Ragged Ones*	à Kempis	*Imitation of Christ*
White	*Look Away, Look Away*	Davidson and Doherty	*Captain Marooner*
Platt	*A Pocket Guide to the Trees*	Fisher	*We Are Betrayed*
Haycox	*The Earthbreakers*	Montsarrat	*The Cruel Sea*
Longstreet	*The Pedlocks*	Davenport	*Great Escapes*
du Maurier	*The King's General*	Edmonds	*Young Ames*
Brontë	*Jane Eyre*		
Wellman	*The Iron Mistress*		

POCKET BOOKS—25 CENTS

Brand	*The Streak*	Brand	*The Hair-trigger Kid*
Ermine	*My Gun Is My Law*	Page	*Reclining Figure*
Loraine	*And to My Beloved Husband*	Wescott	*Captain Barney*
		Davis	*Winds of Morning*
Chandler	*The Simple Art of Murder*	Wells	*The War of the Worlds*
Mittelholzer	*Shadows Move Among Them*	Rigsby	*Kill and Tell*
		Lincoln	*Out from Eden*
Auerbach	*Basketball*	Athanas	*The Proud Ones*
Grey	*The Spirit of the Border*	Field	*Sheriff on the Spot*
Martin	*Dark Dream*	Queen	*Halfway House*
Field	*The Man from Thief River*	Moore	*Candlemas Bay*
Delmar	*Ruby*	Cleary	*The Sundowners*
Gardner	*The Case of the Lonely Heiress*	Ellington	*Exit for a Dame*
		Gunn	*Painted Post Range*
Starnes	*The Other Body in Grant's Tomb*	MacDonald	*Planet of the Dreamers*
		Beverley-Giddings	*River of Rogues*
Romains	*The Lord God of the Flesh*	Curtiss	*Catch a Killer*
Leinster	*Space Platform*	Gardner	*Two Clues*
Davis	*Rio Kid Justice*	Brand	*Single Jack*
Gardner	*The Case of the Baited Hook*	Buck	*Portrait of a Marriage*
Ernst	*Hangman's Hat*	Davis	*Woman's Medical Problems*
Barrett	*The Left Hand of God*	Fosdick	*The Man from Nazareth*
Morehead	*101 Favorite Hymns*	Douglas	*Magnificent Obsession*
Queen	*Origin of Evil*	de Hartog	*Stella*
Fisher	*Red Blizzard*	Savage	*Outlaw Thickets*
Hogan	*Power Golf*	Christie	*Mrs. McGinty's Dead*
Yerby	*Floodtide*	Loraine	*Outside the Law*
Mason	*Himalayan Assignment*		

Exhibit 1. POCKET BOOKS, INC. Partial List of Titles Issued in 1953 (*Continued*)

POCKET BOOKS—25 CENTS (*Continued*)

Gardner	*The Case of the Velvet Claws*	Morehead	*101 Best Loved Songs*
Gardner	*The Case of the Virtuous Bride*	Brown	*Trespass*
Gardner	*The Case of the Substitute Face*	Gardner	*The Case of the Vagabond Virgin*
Gardner	*The Case of the Dangerous Dowager*	Farrar	*The Fourth Crossword Puzzle Book*
Gardner	*The Case of the Sleepwalker's Niece*	Bonham	*Snaketrack*
de Hartog	*The Sea*	Small	*The Low Calorie Diet*
Queen	*Calendar of Crime*	Brande	*Wake Up and Live*
McGivern	*The Crooked Frame*	Thacher	*The Tender Age*
Field	*Canyon of Death*	MacDonald	*Marked for Murder*
Skinner	*Excuse It Please!*	West	*Halfway to Timberline*
Cain	*The Postman Always Rings Twice*	Colt	*Tough Company*
		White	*The Highland Hawk*
		Welmot	*Blood in Your Eye*
		Frank	*Diary of a Young Girl*

in April it was decided to expand to national operation as soon as possible.

The Pocket Books salesforce and the magazine wholesaler organization were instructed to attempt to place specially designed metal display racks in selected retail outlets, which accounted for a large volume of book sales in each territory. In addition to these channels, several record jobbers had been selected to sell to music and record shops. Experiments to determine the best types of retail outlets were not completed in October, 1953, but preliminary figures indicated that the market was a large one and that many of the stores handling Pocket Books could profit from the addition of Bell records to their product line. Among the types of outlets which had achieved satisfactory sales volumes were record shops, super markets, variety chains, and department stores.

All records issued up to October, 1953, had contained a "hit parade" song on each side in contrast to the typical industry practice of putting a less popular number on the back of a hit song. It was planned to restrict titles to those of proven popularity. The first group of records included relatively few artists from the top popularity group, but in November negotiations were under way to secure a series of several "big name" musicians, including Tommy Dorsey and Artie Shaw. About 90% of Bell records was cut to be played at 78 rpm, and about 10% at 45 rpm. Executives recognized that there was a definite movement in the field toward the latter speed, but the 78 rpm could be played on more machines than either the 45 or the 33⅓; also, it was less expensive to produce.

The royalty situation was considered especially well suited to the company's mass production and distribution operations. Almost all copyrights to popular songs were owned by sheet music publishers. Since it was to their interest to do everything possible to increase the popularity of a number to

stimulate sales, they usually licensed all companies applying for the right to cut a record. Pocket Books, Inc., paid copyright owners a royalty of 2¼ cents for each record sold.

Executives were watching sales figures with a great deal of interest and, while it was too early to reach a firm conclusion, they thought that the experiment was likely to be successful. One executive expressed the opinion that "we may be able to do the same thing for the record field that we did for the book business."

Channels and Programs of Distribution. Pocket Books had pioneered in the development of a system of mass distribution for paper-bound books, an innovation largely responsible for the tremendous growth of this field in the years following 1940. From the start executives had recognized that the distribution of inexpensive paper-bound books had to be patterned after magazine distribution techniques instead of those of traditional book publishers. Central to the idea of adopting mass production and distribution methods in the book publishing industry was the necessity of obtaining widespread exposure to sale to potential buyers in thousands of retail outlets. During the early 1940's the company depended almost entirely upon the American News Company [2] to distribute its books to retailers, but in 1944 it shifted to the use of a network of several hundred small independent magazine wholesalers. At first, wholesale accounts were serviced by 10 salesmen, but in 1946, in the face of rapidly increasing competition, about 50 new salesmen were employed. Executives believed that carefully supervised, aggressive sales effort was required to assure proper distribution and sale of Pocket Books. By October, 1953, the salesforce numbered about 80 men divided into six areas, each of which was under the supervision of an area sales manager.[3] The basic distribution policy was to sell through wholesalers wherever a suitable firm existed with the exception of large chain organizations which were serviced by the company's salesmen. However, in areas in which the wholesaler appeared to be giving inadequate service, area sales managers were instructed to take over as many accounts as seemed desirable to provide good coverage and service. While an average of approximately 20% to 30% of all sales was direct to retailers, the proportion varied from some 60% in New York City, where wholesalers' service was completely inadequate, to as little as 10% in Washington, D.C. The largest of the direct retail ac-

[2] The American News Company distributed practically all magazines sold in retail outlets up to about 1930, when newsboys and other independent businessmen began establishing local magazine wholesaling firms.

[3] The six areas into which the salesforce was divided for supervisory purposes were—metropolitan New York, metropolitan Chicago, northeast coast (i.e., Maine to Washington), southeast coast (Washington to Florida), west coast (including the 11 far-western states) and the Middle West.

counts were called on weekly, but the majority of such firms was visited monthly. Wholesaler-serviced accounts were called on about once each year by Pocket Books' salesmen.

In almost all areas, salesmen spent the majority of their time working with wholesalers to help them improve allocations, displays, and other sales efforts. Getting wholesalers to complete the required reports on time was an important part of a salesman's work. Wholesalers were instructed to keep an accurate record of sales at one high-volume retail outlet and submit weekly reports of sales by title for this outlet. They were also required to file a monthly inventory by title of all books in their warehouse. The combined reports of some 850 wholesalers gave Mr. Jacobsen a good indication of the current sales and inventory situation throughout the country. Point-of-sale appeal and market exposure were highly essential elements in the successful sale of paper-bound books. Much effort was devoted to educating retailers to the desirability of heavy traffic location for the specially designed metal display racks provided by the company. A considerable portion of a salesman's work consisted of helping wholesalers and retailers on various special promotions which were staged each year. Some of these were: (1) Christmas, (2) "Back to School" in September and February, (3) Baby and Child Care—during annual baby week, (4) Webster's dictionary—twice each year, (5) Erle Stanley Gardner—twice per year. All promotions involved special packaging, rush shipments, window and interior display materials, and a contest among wholesalers in which a new automobile or a similar prize was given to the one who did the best job during the campaign.

In the early postwar years salesmen were paid about $140 per week in salary and expenses, but by 1953 this had increased to a base compensation of $7,500 to $8,500, plus an end-of-year bonus which averaged about $1,000. The company required salesmen to pay their own expenses and a recent study indicated that these averaged about $1,500 to $2,000 per man. The end-of-year bonus had been an important feature of the compensation plan since 1948. The first bonus had been based entirely on sales volume in relation to a carefully established sales quota for each territory. Mr. Jacobsen thought that the original bonus plan led salesmen to overload dealers and resulted in a high ratio of returns and the neglect of some important features of their work. This plan, which provided a bonus of 2% to 3% of sales over quota, was abandoned in early 1951. The current bonus was based on three factors as follows:

1. Sales in relation to quota.
2. Degree of cooperation the company received from wholesalers in a territory and from the salesmen as indicated by the number of wholesaler reports submitted on time and other factors.
3. Return percentage.

Experiment with Merger of Salesforces. In 1944, Pocket Books, Inc., was purchased by Marshall Field Enterprises. This company owned, in addition to its other publishing activities, a controlling interest in Simon & Schuster, a long-established trade book house. Through its "Little Golden Books," Simon & Schuster had extended the principles of mass production and distribution of 25-cent books to the area of juvenile publications. The venture was initiated in 1942 with printings of 50,000 copies each of 12 titles, which were sold by the regular Simon & Schuster salesforce to some 800 book and department stores. This new line, which appealed primarily to children two to eight years of age, proved to be highly successful. Within a short time other retail outlets, such as chain variety stores, super markets, toy departments of department stores, and infants' wear shops, were added. In 1945, Pocket Books, Inc., was called upon to help in the sale of Golden Books and by 1950 it was selling 40% of all Golden Books, which represented about 35% to 40% of the company's total sales volume. By 1951, over 200 million of these little books had been sold and in that year they represented 60% to 70% of Simon & Schuster's total sales.

With both companies vigorously pushing sales of the same books, some duplication of effort occurred. In addition, considerable confusion existed among the customers of the two organizations. Simon & Schuster employed 30 men, whose principal responsibility was to sell hard-cover trade books to bookstores and Golden Books to all types of firms. Consequently, they frequently sold to toy jobbers and occasionally to food and drug jobbers, and did not hesitate to sell direct to large and/or conveniently located retailers. On the other hand, Pocket Books, Inc., distributed these books in the same manner as its own publications. The price to magazine wholesalers was 15½ cents and they sold to retailers at 19 cents. Toy jobbers called two or three times per year on many of the accounts serviced by magazine wholesalers and frequently secured fairly large orders by quoting a price as low as 17 cents. Also, food and drug jobbers competed for retailers' orders in some territories; thus, it was not unusual for two to four salesmen representing different firms to sell Little Golden Books to the same account. This competition caused considerable dissatisfaction among magazine wholesalers; many pointed out that they were expected to put a rack in the store and provide a regular, expensive service—including warehousing, delivery, accepting returns, handling special promotions, etc., while the toy jobber got many large orders and provided no service. They cited instances in which retailers bought from toy jobbers at 17 cents and then returned them to magazine wholesalers for a credit of 19 cents.

In an attempt to correct this situation and to get more efficient utilization of man power, the two salesforces were merged on January 1, 1951. All men in both organizations, plus a few newly hired salesmen, were assigned terri-

tories on the basis of *Sales Management's* "Survey of Buying Power" with some adjustments to reflect special conditions in the market for books. Executives realized that there were basic differences in selling hard-cover trade books and Pocket Books, but they believed that most of the men could learn to sell all products to all types of customers within a relatively short period of time. Since the ownership of the two companies was not identical, the allocation of the cost of the salesforce was an important problem and was the subject of a lengthy discussion at a joint directors' meeting of the two companies. To enable the merger to proceed, it was decided to budget the same amount for personal selling operations in 1951 as had been spent in 1950 and to divide this amount between the two companies in the ratio that the expenditure of each company bore to the combined costs of operating the two salesforces in 1950. Thus, since Pocket Books, Inc., had spent slightly more money on its salesforce in 1950 than had Simon & Schuster, it was required to bear 54% of the cost of the combined salesforce in 1951.

During 1952 executives of the two organizations decided that the merger was not working out as well as they had anticipated. Mr. Jacobsen believed that there were many differences in the two operations, which required variations in methods, policies, and procedures. He also pointed out that the salesforces were made up of two entirely different types of men with different backgrounds, objectives, and ways of thinking. In his opinion the large number of Pocket Books' salesmen and the necessity for holding costs at the lowest possible level gave rise to a need for very close supervision and control. Simon & Schuster, with its smaller salesforce of more highly individualistic men, had not attempted to maintain tight control over salesmen's activities. Also, friction had developed over the higher salaries received by Simon & Schuster salesmen and over the tendency for men from each of the former organizations to look only to their own headquarters for instruction and advice. An additional problem was that Simon & Schuster executives and salesmen wanted to continue the practice of unrestricted sales of Golden Books to toy jobbers, but Pocket Books' sales organization wanted to limit the use of such jobbers to areas where the magazine wholesaler's performance was inadequate.

In September, 1952, Simon & Schuster offered to appoint Pocket Books, Inc., as its exclusive distributor for all Golden Books except those purchased by bookstores and book departments of department stores. The suggested price to Pocket Books was cost +10%, and cost was defined as including paper, printing, binding, plates, royalties, etc., but excluding all overhead and selling costs. To determine whether the firm should accept this offer, executives prepared estimates of additional costs (i.e., amounts in excess of those required to distribute Pocket Books) which would be incurred. A summary of these estimates is given below:

Promotion and racks	$ 180,000
Sales cost	300,000
Billing, collecting, and administrative costs	170,000
Shipping costs	200,000
Miscellaneous	150,000
	$1,000,000

A projection of current prices, costs, and sales rate indicated that gross margins would be slightly in excess of $1,000,000, and a contract was entered into, effective September 30, 1952. The companies re-established separate salesforces and made adjustments in territories and job definitions. Since Simon & Schuster salesmen now restricted their calls to regular book outlets, the company was able to reduce its salesforce to 15 men. Pocket Books, Inc., increased its salesforce by six or eight men to a total of 80. A policy was established to eliminate the practice of selling to toy, food, and drug wholesalers except in a few areas where magazine wholesalers were not doing a good job, and to require all types of wholesalers to charge the same price to the same type of retailer. During the first nine months of 1953, about 50% of all Little Golden Books was sold through magazine wholesalers.

By October, 1953, Pocket Books, Inc., was selling Golden Books at an annual rate of about 30 million, and Simon & Schuster's Golden Book sales amounted to about 5 million to 8 million per year. The combined annual sales rate of 35 million to 38 million copies was slightly above that of the two preceding years. Executives of both organizations believed that the return to separate salesforces with Pocket Books, Inc., handling sales of Golden Books to mass outlets was an improvement over the single salesforce arrangement. Mr. Jacobsen pointed out that, despite the unusually tough competitive conditions during the first nine months of 1953, Pocket Books, Inc., was enjoying a very successful year. He thought that the efficient salesforce and distribution system were important elements in this success.

Nevertheless, no solution to these problems could be expected to be permanent. Competition had been steadily increasing and it was uncertain as to what effects a leveling out of economic conditions would have on the sale of paper-bound books. Executives had to keep in mind the whole range of shifting influences on reading such as television, increased magazine circulation, simultaneous publication of soft- and hard-cover editions and the intense competition for display space in high-traffic retail outlets.

CASES IN BRIEF

1. The Rogers Company, a small manufacturing concern producing chemical preservatives for wood and leather, had assets of $50,000 and net worth of $35,000. Before Korea, the company employed five or six salesmen covering the entire United States who just about paid their way introducing the new product to the retail field. That salesforce was dispersed by the war since four of the six men were re-

servists. The principal channels of distribution were through marine jobbers for use on boats, hardware stores for home use, and country stores for farm use The company was faced with the question of whether to rebuild its salesforce for this product or change its method of distribution.

The company continued advertising on a small scale so that there was a modest demand for the product and new agencies would not have to do pioneer work to create a demand. The company foresaw the possibility that distributors might not push the line or discontinue it in favor of some other product. Furthermore, they might not be willing to train their salesforces to sell to suitable types of retail outlets, which appeared to be important for the purpose.

Since the company was small, there was little available cash for promotional work. Consequently it was argued that the company should give up the idea of developing its own salesforce because a large salesforce would be required if the country were to be covered properly. It appeared to be especially true that the hardware stores should be reached through hardware jobbers. One executive pointed out that the money required for even five or six salesmen could probably better be spent in improving jobbers' margin, display material, packaging, and in increasing advertising. Other proposals had been made, namely, that the company consider distribution through large mail-order houses or that it try the plan of manufacturers' agents in a specific area and then expand if it proved satisfactory.

Which alternative appeared to furnish the best prospect for development?

What additional facts were necessary to determine whether or not to use manufacturers' agents?

2. When the MGM Pictures Company entered the recorded music business, it was proposed that the company make an agreement with one of the prominent manufacturers of radio, television, and phonographs to utilize the system of distributors which had been built up by such firms. One of the top record companies was also a producer of major electrical appliances and another produced reproducing equipment. It was argued by the motion picture executives and their advisers that, through the utilization of the distribution set-up of the major company, one would quickly get from 80 to 100 selected distributors who already had an important position in each of the principal marketing areas.

Should the proposal be adopted?

3. The Melcher Machine Tool Company manufactured a complete line of engine, tool room, and automatic lathes which were sold to a great variety of industries. During its entire history the company had distributed its machines through dealers who operated their own salesforces. These dealers were given 10% of the selling price as commission and in addition to the Melcher line sold other noncompeting machine tools which totaled about 10 major and 20 minor lines. It was suggested that a direct salesforce might produce more satisfactory results than the selling plan then in use.

The dealers who represented the company in various parts of the United States were outstanding in their field and had handled the Melcher line for many years. The salesmen employed by these dealers were of an unusually high type and were on very good terms with industrial companies which purchased engine, tool room, and automatic lathes. The executives of the Melcher Machine Tool Company considered that this personal contact on the part of the dealer salesforce was very important in selling machines Furthermore, the dealers as a general rule were alert merchandisers and had installed adequate systems of sales control records. They were glad to receive suggestions from the company and had usually adopted them.

Since a dealer handled about 30 different lines, the expense of the salesforce was spread over a greater volume of sales than would have been the case in selling one or two lines. Certain executives of the Melcher Machine Tool Company feared

that a small direct salesforce carrying only lathes would not be able to solicit potential customers so thoroughly as the larger dealer salesforce. They believed, furthermore, that the company had been securing a fair share of the available market. Some information available upon the total sales of automatic lathes, however, indicated that the proportion secured by the Melcher Machine Tool Company was barely satisfactory.

In addition to the personal contact with industry maintained by the dealer's salesforce and the wide coverage of the market, the dealer also assumed the credit function. The company billed all lathes direct to the dealer and received prompt payment. Although the dealer did not carry any stocks of new lathes, he was able to dispose of the used lathes which were taken in trade. These lathes were usually purchased by very small companies, and it was believed that the Melcher Machine Tool Company would experience difficulty in handling this trade-in problem.

Altogether the company considered that it was securing many advantages from the use of dealers. Sales had shown a steadily increasing trend, and both the manufacturer and dealers had prospered. Despite this, however, there were certain considerations which caused the executives to review the merits of a direct selling program.

Although the salesforce of the dealer was selling engine, tool room, and automatic lathes, the need for technical knowledge in the installation and use of these products had made it necessary for the company to maintain a force of specialists who were available for consultation. Furthermore, the dealer salesmen, although unusually intelligent, were not able to acquire an intimate knowledge of the 30 different lines carried. As a result, frequent requests for the service of specialists were received, and the force of 10 men was kept busy. In addition, the company provided a free estimating service for customers. This was necessary since a considerable proportion of total sales was of specially designated lathes to meet particular production problems. Customers often wished to discover the cost of a particular lathe and the savings which could be gained through its use. This service was performed at an average cost of about $75 an estimate and in about only one case out of five did it result in a sale. There was a tendency on the part of dealer salesmen to request estimates without a clear conception of the problem involved, and the company felt that there was much needless waste. With a force of highly trained technical men as salesmen it was believed possible to make a preliminary survey to discover whether there was justification for the preparation of an exhaustive estimate.

Since the company was already doing a part of the selling task through the use of specialists and the preparation of estimates, the 10% commission to the dealers seemed unduly high. This was especially true since the Melcher Machine Tool Company lathes possessed special features which made their sale relatively easy. It appeared that the use of a direct force would enable a saving of 2% to 3% of sales expense and that this extra margin could be used in furnishing better service to customers and so intrench the position of the company In addition, it would be possible for the direct salesman to spend more time with each customer and to exert more aggressive sales effort. With a superior technical training he would be able to discover uses which would have escaped the notice of the dealer salesman. The saving in time to the customer was also thought important since it would no longer be necessary for the dealer salesman to communicate with the specialist, who was often some distance away.

The use of a direct salesforce was further considered an advantage in securing better control over sales with consequent improved scheduling of production and operating economies. New plans could be inaugurated without the necessity of convincing dealers of their desirability and

a more flexible selling organization could be maintained.

Opponents of the direct selling plan contended that it would not be possible to secure effective market coverage except in a few sections where customers were concentrated in a small area. Furthermore, it was stated that the resentment which might be caused among the dealers would result in the adoption of a competitive line and cause a serious situation. Despite this feeling certain important machine tool manufacturers had changed to a direct sales program with apparent success.

Should the Melcher Machine Tool Company have changed to a program of direct selling?

4. The Robertson Company of New York City manufactured panels, partitions, doors, and other interior wood products for the finishing of buildings. Such materials were sold almost entirely through bids. The company, in competition with similar companies and others offering substitute metal or composition products, quoted prices for each type of equipment to be used in the building. The company whose bid was accepted contracted to supply whatever interior woodwork was desired by the tenants at the prices quoted.

After considerable expensive experimentation, executives of the Robertson Company had perfected and patented a process for making a "flameproof" door. The door was distinctly superior to supposedly fireproof doors. Since the flameproof door could not be produced by other manufacturers, there was a possible market for it in large cities throughout the United States, and the executives began to contemplate the possibility of selling outside the territory surrounding New York City. The company considered three possible means of reaching these markets: company salesmen, company agents, or a licensing of the process to manufacturers in other cities.

What method of distribution should the company use?

5. Mr. Locke, a graduate of an engineering college, had been employed by a large electrical manufacturing company for a period of 18 years, of which the major portion was spent in sales work. During that time, he had made many friends among buyers of electrical merchandise and, in 1920, he decided to establish himself as a manufacturers' agent. Although Mr. Locke's training had been largely in electrical engineering, he possessed a thorough knowledge of mechanical design and application and made arrangements with manufacturers of both electrical and mechanical lines to represent them on the Pacific Coast. While the customary commission given to agents of electrical merchandise varied between 10% and 15%, the major portion of Mr. Locke's sales yielded a 10% return. All orders were sent to the manufacturers who extended credit to customers and billed them direct. Mr. Locke was expected to use care in the selection of desirable customers and, although the manufacturers were technically responsible for credit losses 10 days after the acceptance of the order, in actual practice such losses were shared. During the 15 years in which he had been an agent, because of various disputes with companies which he represented, he lost business which it had taken him several years to build up. The general unwillingness of manufacturers to recognize the expense and uncertainty involved in taking on a line of equipment led many to demand excessive sales during the introductory years and to begrudge the commission once a satisfactory volume had been attained. In the late thirties, the imminent possibility of losing two of his larger accounts which planned to develop direct sales caused Mr. Locke to face squarely the question as to whether or not he should continue to operate as a manufacturers' agent.

What is the manufacturer's interest in assigning direct salesmen to the territory or in establishing branch offices in territories where manufacturers' agents have previously had exclusive franchises?

6. Lumbermen in the United States have been much concerned at the decline in the use of heavy timber for construction purposes. The use of heavy timber in certain foreign countries had been maintained by the introduction of various metal connectors which made possible the use of timber frameworks in much the same way that steel frameworks were employed in other structures. These timber connectors were simple metal appliances to develop full joint strength in timber structures, thus overcoming a principal weakness. Their use permitted the joint tension to be placed on the metal connector, which spread the load over the entire surface area of the structure involved rather than localizing the pressure around the edge of the bolt with consequent crushing of fibers and loss of strength. A group of lumbermen incorporated, purchased the patent rights from foreign holders, and began the manufacture of these timber connectors.

How should these connectors be distributed?

7. What is the relationship between the financial resources of an enterprise and the choice of channels of distribution?

8. Would the consumer be benefited if, in governmental planning programs, definite channels were to be fixed for each product, allowing no choice to the manufacturer?

9. Does the trend toward the use of more direct channels of distribution place the small manufacturer and small middleman at a disadvantage as compared with large-scale enterprises?

10. Should a manufacturer be compelled to choose one channel of distribution and adhere to it? Would it be wise to pass a law making it necessary for a manufacturer to sell either direct to retailers or through wholesalers and impossible to sell through both channels at the same time?

11. In what respects do the problems in distribution channels for farmers' cooperative marketing associations differ from those encountered by the private enterprise?

12. Under what conditions should a manufacturer purchase fabricating enterprises in order to secure outlets for his semimanufactured product? Were the Anaconda Copper Company and the Kennecott Copper Company justified from the marketing standpoint in securing control of the American Brass Company and the Chase Brass Company, respectively?

B. SELLING THROUGH WHOLESALE MIDDLEMEN

The manufacturer may decide to shift the performance of the marketing function to an agency which stands between him and the wholesaler. The type of the agency, whether broker, factor, selling house, or manufacturers' agent, will depend in part upon the function to be performed and in part upon the practice of the trade. Terms are so loosely used in many trades that we cannot be sure that a broker is not acting as the representative of a particular manufacturer and carrying on selling effort as though he were a manufacturers' agent, nor can we be sure that the selling house is more than an independent selling department of a manufacturing organization. However, if we assume that the manufacturers' agents or distributors or selling houses are independent, then the use of the channel represents the shifting of the marketing burden to territorial agencies which carry on the selling work and assume the credit risk in varying degrees; in some cases they do merchandising and styling, and in other cases they perform introductory

work under arrangements for special compensation. In the past these agencies normally sold to the wholesaler, but in more recent times they have followed a course charted by necessity and are selling also to larger retailers. In fact, they are adopting policies and selling methods which make them differ little in outward aspects from the sales departments of the manufacturers whom they represent or, in other cases, from wholesalers, except in the range of products which they handle.

Commission houses which fall into this classification are common in the cotton, wool, and silk goods trades and are found to a certain extent in other trades. Manufacturers' agents are common in the grocery and hardware trades. Brokers are also important in the distribution of sugar, canned goods, and certain other lines. Commission houses in the textile trade generally market the whole output of each mill represented or the whole output of one of the mill's products; they sometimes perform important financial functions; they may furnish some design and style service. A manufacturers' agent, on the other hand, will more usually sell for his own clients in either a restricted or a fairly extensive territory. A manufacturer may, therefore, use two or more agents in different parts of the country. In the grocery trade, as well as in some other trades, these manufacturers' agents handle branded and advertised goods. Brokers differ somewhat, the distinguishing feature being limitation of the field of activity. A broker of the original type represents no particular manufacturer but places orders from purchasers with any manufacturer or may arrange sales for manufacturers with any purchaser with whom he may be in contact. The broker does not act as a principal; the buying and selling transactions are completed directly between the seller and the buyer. But there are so many variations that those who call themselves brokers may on occasion be similar to manufacturers' agents, while those who call themselves agents may be almost independent merchants.

Sale to the wholesaler, who in turn sells to the retailer, the second choice open to the manufacturer, is frequently termed the traditional channel of distribution, but examination of the present marketing structure shows clearly that the wholesale structure has been much changed internally and externally.[1] Instead of a homogeneous group of independent wholesalers catering to the markets of various sizes, general wholesalers have declined relatively, and specialty wholesalers, that is, wholesalers who have narrowed their lines and who operate on a basis which differs to a considerable extent from the

[1] For a full treatment of the present wholesaling structure and its functioning, see T. N. Beckman and N. H. Engle, *Wholesaling, Principles and Practice* (New York, The Ronald Press Company, 1949), and "Wholesaling in Our American Economy," *American Marketing Journal*, supplementary issue, Vol. 14, No. 2, September, 1949. See also Phillips and Duncan, *Marketing, Principles and Methods*, revised edition (Homewood, Ill., Richard D. Irwin, Inc., 1952), Parts 4 and 5, Chapters 12 through 18, pp. 255-400.

old line of wholesalers, have appeared. Independent single wholesale establishments have been supplemented by chains of wholesale establishments under one management. Wholesalers, like retailers, have varied the amount of service which they offer, so that we speak of service wholesalers and cash-and-carry wholesalers. Some wholesalers cater especially to large customers, such as hotels and institutions. Wholesalers on the borderline between wholesaling and retailing as the primary function have arisen to complicate an already confused situation. Others own and operate chains of retail stores and in addition sell to independents. Some wholesalers of consumers' goods operate under a contractual arrangement with independent retailers who constitute a select and independent group entitled to special service and special prices. Lastly, cooperative wholesalers have assumed prominence.

From the viewpoint of the manufacturer, the sales organization and sales effort required to sell to wholesalers are very much smaller in a given territory than those required for selling direct to retailers. Frequently the wholesaler is the strongest financial link in a chain of distributors and is customarily able to pay for his purchases in short-credit periods, while at the same time extending more liberal terms to retailers. Thus in one direction he may finance the manufacturer and in the other he must assist the retailer financially. A typical wholesaler handles an extensive line of goods, but this volume of business depends upon size and territorial coverage, whether local, sectional, or national. On the other hand, many wholesalers have not been able to perform their essential functions of purchasing in large lots and selling and delivering needed goods to retailers either satisfactorily to manufacturers or at a satisfactory profit to themselves. Manufacturers have found it necessary to supplement the selling effort of wholesalers and to assist in the functions of financing and storing. Manufacturers' demands have sometimes been unreasonable and inconsistent with wholesalers' interests; wholesalers have operated without apparently being cognizant of changes in external conditions. The net result of the various forces is a confused, almost chaotic condition, which often makes the sales manager's choice a temporary one based upon expediency.

18. CALDERWOOD COMPANY. Distribution of a New Product

In 1946, Mr. Joseph Curtis, sales manager of the Calderwood Company, was debating whether to distribute liquefied petroleum gas fittings through manufacturers' agents or the company's own sales branches. During World War II, the company had to replace the manufacturers' agents with its own outlets. The liquefied petroleum gas (LPG) fittings were not added to the line until 1945, and Calderwood had had little experience in dealing with the customers for these fittings. Therefore, some members of the sales organization believed it would be more satisfactory to distribute through manufac-

turers' agents who were acquainted with the LPG market, but Mr. Curtis felt that perhaps in the long run the company's own branches would produce better results.

The company was founded in a middle-western city in 1919 by Samuel Calderwood, who became president. During the first 10 years of the company's existence, it had operated largely on a job-order basis, providing quick, efficient service on small orders. Since 1938, the company had experienced a very rapid growth, jumping from sales of $3,400,000 in that year to $37,000,000 in 1945. Prior to World War II, the company's business consisted largely of automotive fittings sold to the major automobile manufacturers. This type of business required very little selling organization, and as a consequence the company had not developed a large selling force but rather had concentrated its efforts on service, delivery, and engineering problems. As the Calderwood products received greater acceptance as original equipment on automobiles, the company began participating in the replacement business which was handled through manufacturers' agents. With the beginning of World War II, the company found that much of its equipment used for the manufacture of automobile parts was applicable to the manufacture of aviation and refrigeration fittings with but little alteration in the manufacturing equipment. During the war, the company sold hose assemblages and other parts to the aviation industry through mill supply houses and automotive jobbers.

In 1946, the company was engaged in the manufacture and sale of products used principally in the automotive and aviation industries, including high- and low-pressure tube fittings, valves, carburetor parts, drain and shutoff cocks, dash controls, hose assemblages, refrigeration and air-conditioning parts, hydraulic actuating cylinders, and special screw-machine products. All the manufacturing for the company was done in four factories, three of which were located in the United States and the fourth in Canada. The sales organization was directed by the vice president in charge of sales, who was assisted by four sales managers responsible for: (1) aviation and reconversion and the home office sales branch, (2) refrigeration and LPG, (3) automotive jobbing, and (4) high-pressure fittings used in Diesel and aviation engines. The sales managers supervised the branch salesmen and in some cases sold to the accounts directly. The sales manager in charge of aviation and reconversion also functioned as assistant general sales manager. The company had no market research department, but it was transferring a division of the statistical department to the sales department, where it would be responsible for market research.

The company had six sales branches throughout the United States, and the country was divided into eight sales regions, two of which were covered by manufacturers' agents. Most of the salesmen had had previous experience in allied fields and were all paid on a straight salary basis. The company had

considered paying them on a commission basis, but it was believed that sufficient information was not yet available concerning sales costs and territory potentials to formulate an effective incentive compensation plan.

The engineering department was composed of three divisions: (1) development engineering, (2) project engineering, and (3) service engineering. The service engineers, who were partly responsible to the sales department, traveled in the field visiting customers to assist them in their engineering problems. The more difficult engineering problems were referred to the company and assigned to the project division. These were often problems of redesigning products already being manufactured but requiring some modification to fit the particular needs of a customer. When it was necessary to develop an entirely new product, the problem was referred to the development division.

Prior to the termination of World War II, the company had begun to investigate the possibility of manufacturing parts for the LPG trade. Its first step was to employ an engineer who had had considerable experience in this area and enjoyed numerous contacts among customers for LPG fittings. He visited the Pacific Coast and the southwest portion of the country, which were the best market areas for LPG, and surveyed Calderwood's chances for entering this business.

Liquefied petroleum gas was distributed under various trade names but included only two principal gases: butane and propane. The former was used largely in southern regions, since pressure developed by heat was more suitable to warmer climates. It was usually stored in tanks varying in size from 100 to 1,000 gallons, which might be placed either below or above ground. The storage tanks were generally horizontal or spherical. The dealers filled the tanks at regular intervals and piped the gas into residences for heating and cooking purposes. Tanks were used almost exclusively in the South and West, whereas in the East gas was stored in cylinders usually attached to the outside of the residence. The gas used in the East was propane but was referred to in the trade as "bottled gas." The cost of these gases varied in different areas and with different units of measurement, but the average cost of propane was about 9 cents per gallon and butane, about 4 cents per gallon (Exhibit 1). There was a trend in the industry toward the installation of tanks for the use of propane. These were less expensive to operate than the cylinders, since they required fewer trips and less attention from the dealer. The rapid growth of LPG in the South and West rather than in the East was the result of the refining industry being concentrated in that area, and the gases were a by-product of that industry. The lower costs of the gases and the efforts of the refineries to dispose of the by-product helped to develop this market. Its growth in this area was also facilitated by its greater adaptability to warmer climates.

Exhibit 1. CALDERWOOD COMPANY. Comparative Figures,* Bottled Gas, City Gas, and Electricity Based on B.T.U. Value. Monthly Billing

	Bottled gas		City gas		Electricity	
	LPG, lb.	Cost, cents per lb.	Correspond-ing no. of cu. ft	Cost, cents per 100 cu. ft.	Corre-sponding kw.	Cost, cents per kw.
First	6.96	14 7	283	35	44	2.3
Next	13 92	11 5	567	26	88	1.7
Next	13 92	8.8	567	21 5	88	1.4
Next	13.92	6 25	567	15 5	88	1.0
Next	233	4.3	9,440	10.5	1,465	0.68
Over	281 72	3.22	11,424	8 0	1,773	0 42

* Figures prepared by a distributor of liquefied petroleum gas in the Boston area.

Until about 1930, the refining industry had normally considered these gases as mere waste, but it was now believed that the industry had an enormous potential market relatively undeveloped. The gases had many varied uses, both industrially and domestically. They could be used to propel various types of vehicles and drive different types of machines; they had been used in cotton gins, tobacco drying plants, and synthetic rubber plants, and for welding, soldering, and heat-treating metals. In the South and West, the gas was used for cooking and heating, but in the East was used generally only for cooking. To analyze the potential LPG market further, the company hired two additional engineers to gather information from trade publications as to the equipment needed by the industry and the market for it. It was found that the company's present machines could be used for the production of LPG fittings with few, if any, alterations.

In the summer of 1944, company executives decided on the basis of information furnished by these engineers to enter this new field and produce a line of equipment as complete as any offered by existing manufacturers. Only one competing manufacturer attempted to produce all the parts required in LPG systems. In developing the market for LPG fittings, the Calderwood Company sent out representatives from the home office to its various branches to acquaint them with the nature and uses of LPG fittings. This was considered a more effective means of training the salesforce than having the men come to the factory. The company had not previously undertaken a formal sales training program, although as soon as feasible, it intended to have the salesmen come to headquarters for a period of 2 weeks, during which time they would go through the company plants and talk with officials.

In 1945, the company began to manufacture the nine principal units which comprised an LPG system: a regulator, fill valve, vapor-equalizing valve,

safety-relief valve, cylinder valve, expansion coil, multiple head, fill-valve coupler, and excess-flow check valve. These parts were attached to the pipe lines coming from the tanks containing the gas, controlled the flow of the gas, and measured the amount of fuel and the pressure of the tank. Each of the Calderwood products had been tested by the Underwriters' Laboratories in Chicago, the testing agency recognized for its service for all types of equipment involving pressure or fire hazards.

Exhibit 2. CALDERWOOD COMPANY. L. P. Gas—Price List. Effective February 1, 1946

Catalogue no.	Description	Quantity			
		1–24	25–99	100–499	500 up
100	Cylinder valve, with handwheel	2.90	2.71	2 32	2 10
102	Cylinder valve, less handwheel	2 76	2.49	2.21	1.98
101	Service-line valve	2.50	2.25	2.00	1 86
105	Service-line valve with excess flow	2.76	2.49	2.21	1 96
200A	Safety-relief valve 80 lb. W.P.– 0 30	1 97	1 78	1 68	1.58
200B	Safety-relief valve 100 lb. W.P.—0.30	1.97	1.78	1.68	1 58
200C	Safety-relief valve 200 lb. W.P. –0.30	1.98	1.79	1.69	1.59
200D	Safety-relief valve 250 lb. W.P.– 0.30	1.98	1.79	1.69	1.59
200F	Safety-relief valve 125 lb. W.P.—0.30	1 97	1.78	1 68	1.58
201A	Safety-relief valve 80 lb. W.P.—0.64	4.50	4.28	4.05	3.92
201B	Safety-relief valve 100 lb. W.P. —0.64	4.50	4.28	4 05	3.92
201C	Safety-relief valve 200 lb. W.P.—0.64	4 65	4.42	4 19	4.06
201D	Safety-relief valve 250 lb. W.P.– 0.64	4 65	4 42	4 19	4.06
201F	Safety-relief valve 125 lb. W.P.—0.64	4.50	4.28	4 05	3.92
300	Fill-valve coupler	1 36	1.23	1.09	0.98
301	Vapor-valve coupler	0.95	0.86	0.76	0.60
302	Unloading adapter	4.50	4.05		
303	Safety-relief valve vent -0.30	0.24	0.23	0 22	0.21
304	Safety-relief valve vent 0.64	0.61	0.60	0.59	0 58
305	Slip tube adapter with gasket and 4 screws	0.76	0.74	0.72	0.70
400	Fill-valve	2.48	2.38	2.25	2.17
500	Vapor-equalizing valve 1 in.	2.22	2.00	1.78	1.68
501	Vapor-equalizing valve ¾ in.	2 75	2.48	2.20	1.88
502	Vapor-equalizing valve ¾ in. (no slug check)	0.92	0.87	0.83	0.77
600	Excess-flow check valve	1.30	1.28	1.26	1.24
700	Expansion coil	1.21	1.19	1.17	1.15
701	Pigtail 20 in. straight	1.06	0.96	0.85	0.81
708	Copper connector 5 in. with P.O.L.	0.70	0.68	0.67	0.65
800	Calderwood regulator	5.86	5.57	5.28	5.25
900	Multiple head (less fittings)	8.13	7.72	7.32	7.10
1100	Cross tee (less check valve)	1.09	1.06	1.04	1.02
1101	Cross tee (with check valve)	1 58	1.51	1.43	1.28

The above prices are in accordance with OPA Price Order No. L241, effective February 1, 1946.
The 1–24 bracket indicates ceiling prices.
Flare fittings, shaped pigtails: Prices on application.
Prices are f.o.b. factory. Terms: 1% cash 10 days, 30 days net.
Prices subject to change without notice.
Possession of this price list or discount sheet does not necessarily entitle holder to receive these prices or discounts.

The Calderwood Company priced its products to the tank manufacturer by unit (Exhibit 2), but the manufacturer quoted a lump sum price, including both tank and LPG system, to the dealer. Servicing was done primarily by the dealer who made the installations and sold the fuel. Replacements were purchased either from the tank manufacturer or directly from the Calderwood Company and were installed entirely by the dealer. When the company undertook this new development, it estimated that it would amount eventually to 10% of its sales. In February, 1946, it was necessary to revise this estimate to 30% of total sales of about $30,000,000.

At this time, the company had a total of 150 accounts, which were nearly all located in the South and West. The latter area was handled by a company branch in Los Angeles and the former by a manufacturers' agent in New Orleans. These accounts were all tank manufacturers, which was to the advantage of the company because the assembly used on the tanks was more expensive and larger than that used on the bottled gas equipment. It had been easier for the tank manufacturers to reconvert their plants following the war than it had been for the manufacturers of bottled gas equipment.

During the war, Calderwood had generally replaced the manufacturers' agents with its own sales branches, and certain executives advocated continuance of the policy on the ground that control of its own sales organization would give better insurance against future contingencies. Manufacturers' agents generally charged between 10% and 12½%, and it was believed that sales branches could be operated at between 4% and 6% of sales. Sales branches were considered desirable because they provided direct contact with the customer, more intensive coverage of the territory, closer check on advertising responses, and more control over policies and promotional plans. There was a tendency on the part of many manufacturers' agents to keep the customers and the manufacturers apart. They usually carried more than one line of product and represented more than one type of manufacturer. This had led many agents to favor one line of product to the disadvantage of others.

19. THE O. A. SUTTON CORPORATION (A)

Introduction. The O. A. Sutton Corporation, founded in 1940 in Wichita, Kansas, began operations as a manufacturer of welded steel tubular aircraft frames. Between 1940 and 1945 operations were expanded to include the manufacture of motor mounts which were supplied in varying amounts to 11 different aircraft companies.

During the war, company executives became acquainted with an aeronautical engineer who was working on jet engine designs. The study of air motion in these jet engines suggested an idea for a superior fan to him which he designed and patented. For his new product he selected the name "Vornadofan" which was a combination of the words "Vortex-Tornado,"

which described the air motion and "fan." Since the possibilities of this new product appeared to the president of the Sutton corporation to be considerable, he obtained the patent rights in return for a royalty agreement.

At the conclusion of hostilities, both expansion and conversion of production facilities were initiated to begin the manufacture of "Vornadofans." Concurrently, the work of developing a sales and marketing organization was begun and in late 1945 and early 1946 distributors were appointed in most major trade areas in the United States. Currently the company was selling to 72 distributing firms who, collectively, had 7,000 to 10,000 retail dealers as Vornado customers.

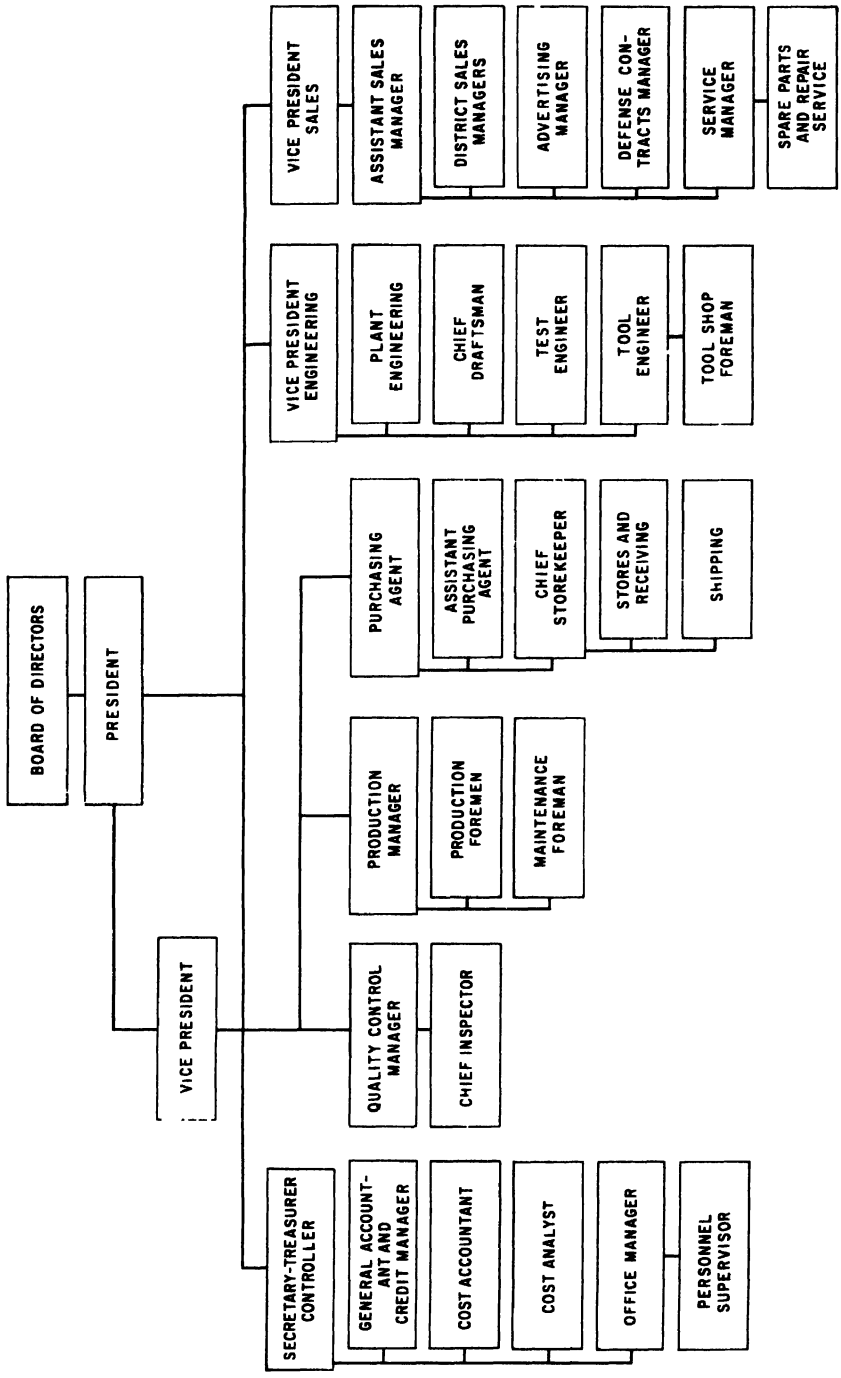
In early 1947 international distribution was begun with Radio Corporation of America, International Division, as sales agents for all countries outside of the continental United States except Canada, Hawaii, Cuba, and Puerto Rico, where distributors had been appointed.

During the five years following World War II rapid and continuous expansion of plant facilities had taken place. By 1951 the company's plant consisted of over 120,000 sq. ft. of floor space under one roof as contrasted to 16,960 sq. ft. in 1940. The operations included the manufacture of electric motors and speed controls used in Vornados. The motors and controls, up to late 1950, had been marketed under the Sutco trade name. The fans, by 1951, were marketed under the name "Vornado" air circulators, as it had been found easier to promote a shorter brand name. Almost all operations in the making of Vornados from the sheet metal to the finished product were performed in the company's plant. The factory was located on the main line of the Missouri Pacific Railroad with space for private carloading capable of spotting seven cars within the premises. The city of Wichita was served by three other railroads. The 340 factory employees were affiliated with the International Association of Machinists, but the company had never experienced strikes or other labor difficulties.

By 1951 the company sold 14 models of Vornados ranging in retail price from $13 to over $100 each. Sales, which in 1950 were in the seven figure bracket, were under the direction of a vice president who directed the activities of nine sales representatives who carried the title of district sales managers. Exhibit 1 presents the organization of the company in early 1951.

Use of Quotas as Check on Distributor's Performance. The O. A. Sutton Corporation's distribution organization consisted of nine company sales representatives, titled district sales managers, calling upon 72 distributors who sold to between 7,000 and 10,000 dealers. In the spring of 1951, the vice president in charge of sales was studying the method that had been used in a previous distributor sales meeting to demonstrate to distributors the varying degrees of coverage they obtained in their territories, in order to determine its future usefulness and desirability.

Exhibit 1. THE O. A. SUTTON CORPORATION



The company calculated a quarterly sales quota for each county in the United States by adjusting for seasonal variations the effective buying income index in sales management for each county and applying this adjusted county index to the total company quota. Each distributor's quota was determined by totaling the county quotas in his territory and adjusting the total slightly to take account of past performance. Each salesman's quota was the total of the distributor's quotas in his territory. The quotas given to the distributors and to the men exceeded expected performance by a sizable factor.

In order to remain abreast of current developments the vice president in charge of sales received a daily report from each salesman listing his activities (Exhibit 2) together with a weekly report for each distributor from salesmen giving sales and inventory position (Exhibit 3). The company could check on the flow of fans from the dealer level to the consumer level by means of the owner registration statement which was a slip of paper packaged with each fan which the final user was requested to return to the company. Past experience had given the company a statistical basis by which to appraise the volume of sales to the consumer by the receipt of owner registration statements.

Each distributor was requested to submit a monthly report of his sales to dealers giving the names and addresses of each dealer (Exhibit 4). The figures from Exhibit 4 were then posted on Exhibit 5, which was a running four-year record for each dealer. By study of the information in Exhibit 5, the company executives were able to determine sales performance by counties and to compare this with the county quotas. In preparing for the December, 1950, distributors' sales meeting, the vice president in charge of sales had prepared maps for each distributor which illustrated performance county by county. For the Peoria, Illinois, district, for example, sales and quota data were brought together (Exhibit 6). The per cent of quota attainment was then plotted on a map (Exhibit 7), each county being given a shading depending upon sales performance. In this way the company was able to show graphically to its distributors that their performance was spotty and could be improved. The company had used this map approach only once, and executives were trying to decide whether to make this an annual feature of the distributors' meeting.

Except for the maps the various records had never been used by the company as a tool in stimulating distributors to greater action, having been generally used merely as an indication and a record of performance. Executives realized that, for the competitive era ahead, Sutton had to depend upon getting effective and continuous selling by independent distributors. It was not in a position to establish its own branches nor did it desire to do so. In the spring of 1951, marketing executives of The O. A. Sutton Corporation were concerned with the problem of getting satisfactory performance by each of 72 distributors in 72 territories covering the United States.

Exhibit 2. The O. A. Sutton Corporation

SALES REPRESENTATIVE'S DAILY REPORT

DISTRIBUTION AREA _____ DATE _____ 19 __

TIME INDICATED AM OR PM	CUSTOMERS NAME AND ADDRESS	PERSON INTERVIEWED	VALUE OF ORDER OBTAINED	PRODUCT	REMARKS

_____ POSTED _____ DATE _____ SALES REPRESENTATIVE

_____ PURCHASE ORDER RECEIVED BY _____ REVIEWED BY

DISTRIBUTION AREA _____ DATE _____ 19 ____

REMARKS OR IMPORTANT INFORMATION

TO: _____

_____ APPROVED BY _____ SALES REPRESENTATIVE

Prepare and Mail This Form in Duplicate

Exhibit 3. THE O. A. SUTTON CORPORATION. Salesman's Report on Distributor

VORNADO

Please mail this report Special Delivery (without fail) each Thursday morning to:

Ray J. Thompson
273 Juniper St., Park Forest
Chicago Heights, Illinois

This report is as of Wednesday night, _____

Model	Sales Since Last Report	Present Inventory
16C1		
20C1		
24C1		
28C1		
38C1		
38P1		
60P1		
16W1		
30W1		
40W1		
60W1		
26F1		
	Total Number of Dealers to Date	

Distributor _____

Signed _____

Exhibit 4.

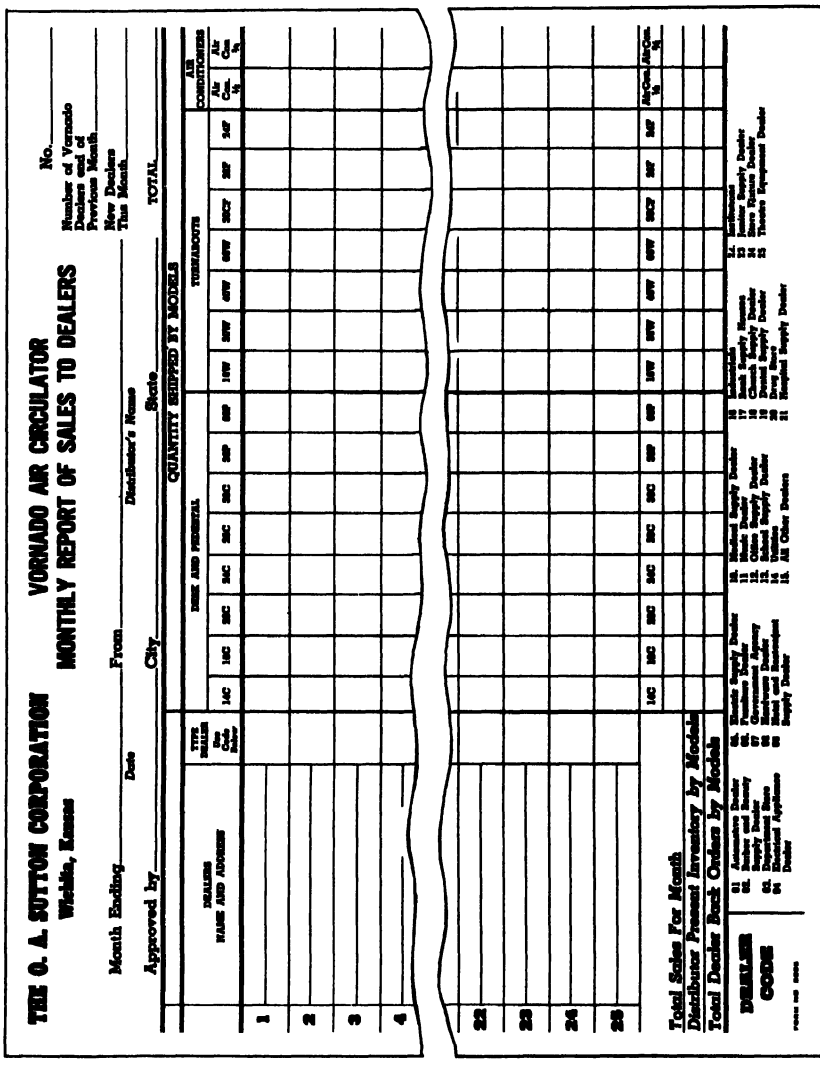
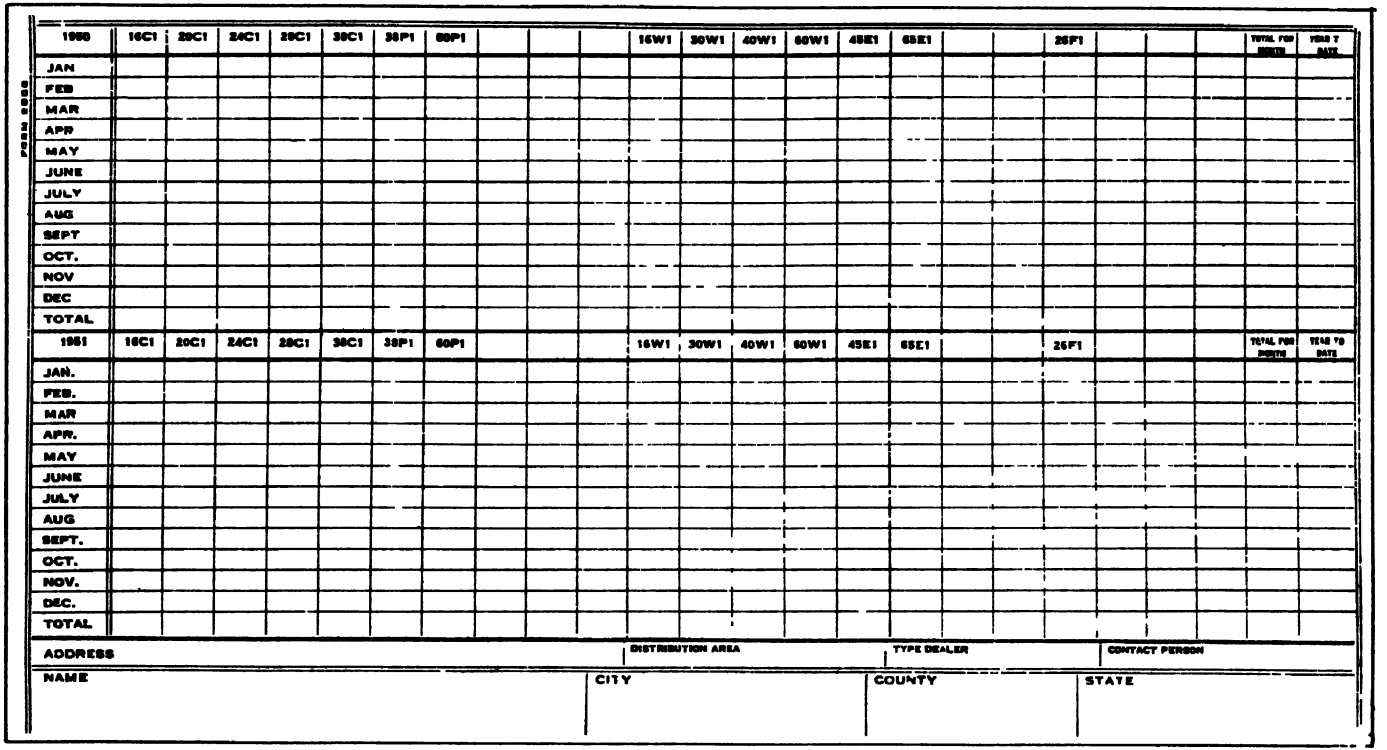

THE O. A. SUTTON CORPORATION
Wichita, Kansas
VORNADO AIR CIRCULATOR
MONTHLY REPORT OF SALES TO DEALERS
No.
Number of Vornado Dealers end of Previous Month
New Dealers This Month
Month Ending
Date
From
Distributor's Name
Approved by
City
State
TOTAL
QUANTITY SHIPPED BY MODELS
DEALERS NAME AND ADDRESS
TYPE DEALER
Air Cond. Dealer
SIDE AND PEDESTAL
TURBOJETS
AIR CONDITIONERS
Air Cond. %
1
2
3
4
22
23
24
25
Total Sales For Month
Distributor Present Inventory by Models
Total Dealer Back Orders by Models
DEALER CODE

Exhibit 5. The O. A. Sutton Corporation. Four-year Record of Dealer's Orders



1960	16C1	20C1	24C1	28C1	36C1	38P1	60P1				16W1	30W1	40W1	60W1	45E1	65E1			26F1				TOTAL FOR MONTH	YEAR TO DATE
JAN																								
FEB																								
MAR																								
APR																								
MAY																								
JUNE																								
JULY																								
AUG																								
SEPT																								
OCT.																								
NOV																								
DEC																								
TOTAL																								

1961	16C1	20C1	24C1	28C1	36C1	38P1	60P1				16W1	30W1	40W1	60W1	45E1	65E1			26F1				TOTAL FOR MONTH	YEAR TO DATE
JAN.																								
FEB.																								
MAR																								
APR.																								
MAY																								
JUNE																								
JULY																								
AUG																								
SEPT.																								
OCT.																								
NOV.																								
DEC.																								
TOTAL																								

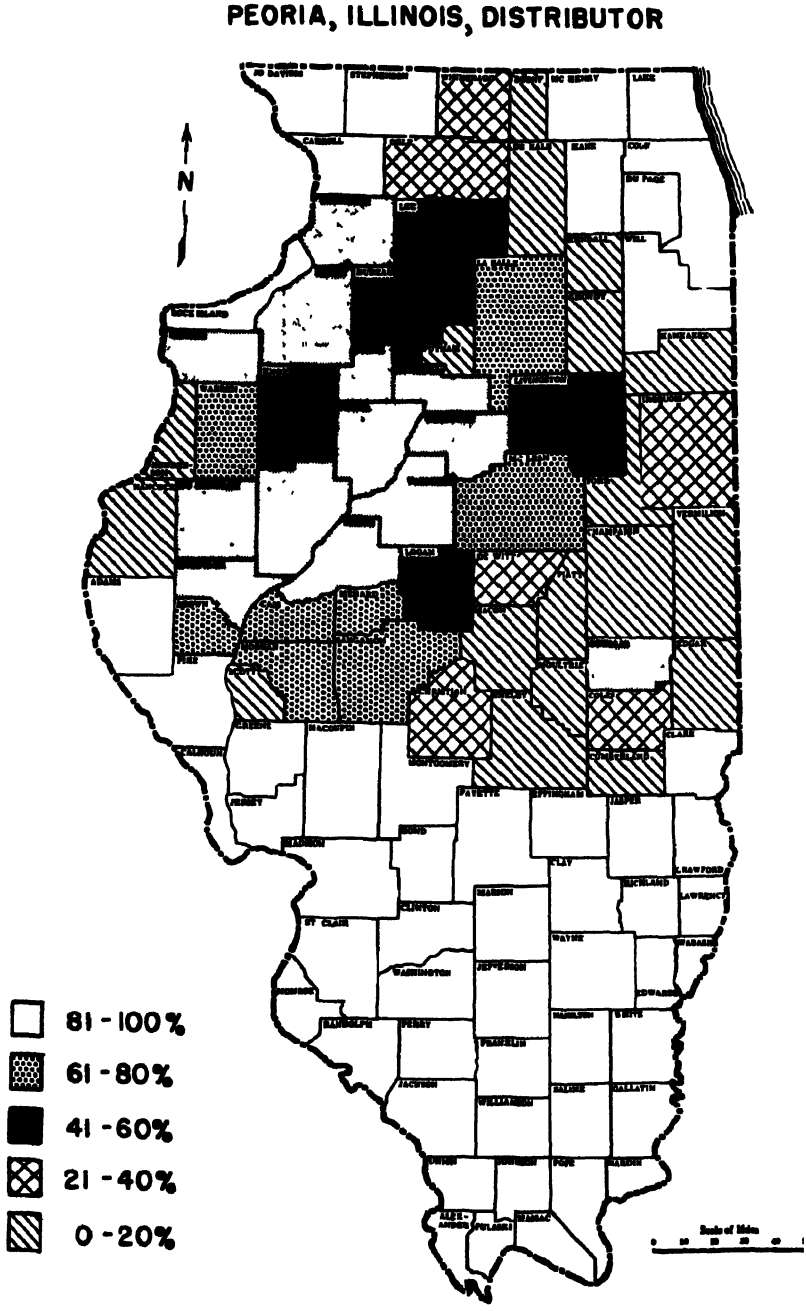
ADDRESS	DISTRIBUTION AREA	TYPE DEALER	CONTACT PERSON
NAME	CITY	COUNTY	STATE

Exhibit 6. THE O. A. SUTTON CORPORATION. Sales Record for Peoria Distributor

Peoria Dist.—Quota $144,500 Total Sales: $86,664 = 60%

	Effective buying income % of U.S.A.	Quota	Sales	% of quota
Winnebago	0.1175	11,249	3,600	32
Boone	0.0122	1,168	140	12
Ogle	0 0220	2,106	548	26
Dekalb	0 0314	3,006	210	7
Whiteside	0.0335	3,207	2,950	92
Lee	0.0274	2,623	1,338	51
Kendall	0.0066	632	95	15
Henry	0.0302	2,891	3,180	110
Bureau	0 0258	2,470	1,408	57
LaSalle	0.0893	8,550	6,498	76
Grundy	0.0114	1,091	131	12
Mercer	0.0099	948	1,090	115
Stark	0.0054	517	569	110
Putnam	0.0023	220	22	10
Marshall	0.0081	775	666	86
Kankakee	0.0551	5,275	528	10
Henderson	0.0052	498	75	15
Warren	0 0152	1,455	1,120	77
Knox	0.0425	4,069	2,197	54
Peoria	0.1599	15,309	18,065	118
Woodford	0.0130	1,245	1,320	106
Livingston	0 0260	2,489	2,098	84
Iroquois	0.0229	2,192	701	32
Hancock	0 0153	1,465	264	18
McDonough	0 0214	2,049	2,029	99
Fulton	0 0310	2,968	3,087	104
Tagewell	0 0467	4,471	4,873	109
McLean	0.0637	6,099	4,757	78
Ford	0.0107	1,024	123	12
Schuyler	0.0050	479	517	108
Mason	0.0092	881	969	110
Logan	0.0204	1,953	1,504	77
Dewitt	0.0127	1,216	462	38
Piatt	0.0092	881	167	19
Champaign	0.0782	7,487	1,348	18
Vermilion	0 0654	6,261	1,064	17
Brown	0.0038	364	284	78
Cass	0.0122	1,168	864	74
Menard	0.0061	584	450	77
Macon	0.0787	7,535	1,432	19
Douglas	0.0127	1,216	1,265	104
Edgar	0.0160	1,532	214	14
Scott	0.0038	364	44	12
Morgan	0.0245	2,346	1,689	72
Sangamon	0.1069	10,235	8,086	79
Christian	0.0259	2,480	942	38
Shelby	0.0112	1,072	204	19
Moultrie	0.0066	632	114	18
Coles	0.0350	3,351	1,307	39
Cumberland	0.0042	402	56	14
	1.5093	144,000	86,664	60

Exhibit 7. The O. A. Sutton Corporation



20. SPICER SUPPLY COMPANY. Selective Retail Distribution

Recently a long-established wholesale hardware jobber handling a large number of housewares and small appliance lines decided to take further steps in the direction of reducing costs of distribution. The president, Mr. Spicer, expressed the feeling that, if independent wholesalers and retailers of hardware lines were to succeed in competition with larger retailers, their costs at the wholesale level must be sharply reduced. He further declared that study showed the cost of retailing among independent hardware dealers was not excessive but the weakness seemed to lie in wholesaling costs, exactly as they were too high in the grocery field until forced downward by World War I chain competition; "money spent at the wholesale level will sell no more merchandise for the wholesaler, retailer, or manufacturer. It is a waste except merely for mechanical distribution. Money spent at the point of sale for advertising, better store layout and displays, will sell more merchandise for all of us. Money spent for better consumer merchandising sells more goods."

In 1948 the company sold to about 1,200 dealers. It began pruning its list, intending to confine sales to a limited number of retailers who would be willing to work with the wholesaler and help develop a program of concentration of business with that wholesaler. Under such conditions the wholesaler could afford to give a type of service which would be impossible if the same service were to be spread thinly over many more dealers. It was expected that eventually the maximum number of customers of the wholesaler concern would be about 350.

The Spicer Supply Company expected to be able to serve the reduced number of customers, not only by merchandising services, but also by the payment of dividends or rebates based on each customer's individual profit as shown by daily IBM analysis of purchase records. It was expected that every dealer would sign a statement of policy whereby he agreed to spend all dividend savings made available to him for better sales promotion and advertising purposes as recommended by the wholesaler.

The promotional help to the dealer comprised a year-round program embracing consumer catalogues, newspaper maps, consumer display windows, etc. This service was sold but at a considerable savings to the dealer, while cash dividends on gross purchases were expected to average about 5%.

In its effort to decrease the cost of distribution, the executives of the Spicer company had become aware of the example of two other firms, one in Minneapolis and the other in Pittsburgh. Both were leading distributors of hardware and housewares. One of these companies was owned by retailers, and the retailers received an annual dividend based partly on earnings, partly on the merchandise they bought. The company was not a cooperative and did not offer quantity dividends as did the Spicer company. As a result of this arrangement with some 400 dealers, the Pittsburgh firm was said to have a

gross overhead 50% less than the average hardware jobber in the United States. This firm likewise, in addition to other dealer savings on its purchases, offered services such as assistance in sales training programs, booking and insurance assistance, productive service advice. The Minneapolis firm selling in northern Minnesota and western states had over 470 dealers who owned their own stores and all the common stock in the wholesale company. The latter gave its dealers a buying commission on all goods purchased from the company. Dealers bought by mail from a catalogue and the commission varied with the product. Those dealers got commission plus profit of the parent company and in return were required to pay their bills on a 2%-8 day basis.

Was the Spicer Supply Company likely to increase its volume of sales and profits as a result of reducing the number of retailers to whom it sold?

Would a manufacturer of electrical appliances be wise to encourage distributors to adopt the Spicer company plan of reducing the number of its retailers?

CASES IN BRIEF

1. A medium-sized manufacturer of small electrical appliances such as toasters, irons, and the like, proposed to abandon its policy of expanding its line and to adopt a policy of making a limited line of products sold only through recognized wholesalers duly franchised with sale to distributors on a limited, but selected, exclusive basis. The company proposed to discontinue direct sales to tea and coffee companies, cooperatives, department stores, and other types of retailers. Furthermore, it proposed to sell only under its own brand and to discontinue the manufacture of private brands.

The short line was to be further limited to heating appliances featuring automatic thermostatic control. District managers were to be given full responsibility for selection and control of wholesale distribution within their districts subject only to regional and national direction. It was also announced that, when new models were to be introduced, companies would give advance notice so that retailers could clear stocks from their shelves. It was planned to have at least one competent service station in every marketing area in the country and that service station was to be entirely independently owned and operated.

Were these policies likely to win the support of retailers in competition with larger producers of traffic appliances?

2. One of the major manufacturers of radios, television, and other appliances was charged with violations of the antitrust laws in a civil suit filed by the Department of Justice The complaint asserted that the manufacturer required its wholesale distributors to agree not to sell its electrical products to retailers outside the specific sales territories allotted to each wholesaler. Furthermore, the suit charged the wholesalers were compelled to agree that they would not handle any competitive products. Retailers likewise were not allowed to sell to other retailers but only to consumers. According to the statement in the suit, "The effect of these restrictions is to limit competition in the sale of these branded products at both the wholesale and retail levels by preventing retailer dealers from securing such products from other retail dealers and preventing retail dealers not approved by the manufacturer and his distributors from acquiring these products for resale."

If a prohibition of these practices were sustained by the courts, what would be the effect upon manufacturers' and wholesalers' distribution policies?

3. A manufacturer of a narrow line of pharmaceuticals, a company which had been selling direct to retailers, planned to market the bulk of its output through wholesalers instead of selling direct to dealers. Its argument was that it would cut its warehouse operations substantially and likewise the cost of solicitation. However, it planned to use special salesmen to call upon more important retailers.

Under what conditions was the plan likely to be successful?

4. The Cronin Iron Works for many years erected steel structures for buildings and bridges in Greater New York, the plain materials being fabricated in the company's plant in New Jersey. Practically all work was done on a contract basis, usually after the submission of competitive bids. The company secured information about contemplated construction work through newspaper reports, the Dodge Service, architects, and engineers. After securing permission to bid on a desired job, the officers of the company had prepared, on the basis of the plans and specifications of the proposed structure, an estimate of the price at which the company would be willing to undertake the work. Contracts were almost always let to the lowest bidder if adequate proof of ability to fulfill them could be furnished, since the quality of the work was considered of little importance beyond the point at which the architects and city inspectors approved it.

The competition met by the Cronin Iron Works arose chiefly from three sources: other independent fabricators and erectors, brokers, and fabrication companies owned or controlled by the steel mills. The brokers did not fabricate the steel in any way but bought it from the steel mills fabricated, ready to put into the structure, and erected it. The steel mills had facilities to fabricate about 25% to 30% of the structural steel ordinarily needed in the United States, while the balance had to be prepared in the local fabricating works. Since each broker was usually rather closely tied up with a single steel mill, it was almost certain to supply the steel for any job which the broker secured. Consequently, it was to the advantage of the steel companies, especially during a depression period, to have the brokers with whom they were closely connected secure the major jobs since they were assured thereby of being called upon to supply the steel and also to use their plant capacity for fabrication. There was some feeling that the steel manufacturers quoted relatively more favorable prices to brokers on fabricated steel than they did to local fabricators on plain steel without the fabrication. Consequently, the local fabricator and erector found it very difficult at times to compete successfully with the brokers, especially for the larger jobs. The relative advantages or disadvantages of local fabrication over fabrication at more distant steel works were not considered as important as in the past. Before transportation was so highly developed, it was distinctly an advantage to prepare the detailed materials near the place of erection, but this advantage had largely disappeared. Apparently the actual costs of fabrication were about the same in an efficiently managed local fabrication works as in a fabrication plant connected with a steel mill.

The Cronin Iron Works had always operated strictly independently, buying its plain material from the various steel producers. In view of the changes taking place in the distribution of structural steel, it was becoming questionable if the company could profitably continue under its existing policies. With the great fluctuations in the demand for structural steel, all the capacity available was hardly able to handle the peak demands, but during periods of depression the independent local fabricators were finding it increasingly difficult to secure a satisfactory volume of work at profitable figures.

In order to operate satisfactorily, it was essential that the company have a reasonable amount of work at all times so that a skeleton force might be maintained and that some of the larger jobs might be obtained in order to supply tonnage.

What should be done?

5. A prominent official of the National Food Brokers Association declared some years ago that permanent and extensive changes in the distribution of groceries were being dictated by housewives. Self-service in dry groceries was on an upward swing, with grocers in smaller communities planning to install self-service stores of some kind as soon as they could. It was further stated that whatever happened to the retail grocer and wholesaler must inevitably affect not only brokers but the processors and manufacturers of food products.

What effects would the growth of self-service have upon the policies and operations of grocery specialty and manufacturers' sales departments; upon grocery wholesalers?

6. The Adams Company, manufacturers, packers, and distributors of a line of food specialties which had been widely sold and advertised in New York City, began a program of expansion. This program included the purchase of a Chicago plant, complete distribution through wholesalers east of the Rockies, and national advertising of the leading products. In the middle-western territory, there were numerous cash-and-carry wholesalers. For example, in the Toledo area the Mixter Company operated 24 such wholesale stores which sold a limited line of fast-moving nationally advertised goods plus some bulky markup articles. All sales were for cash, no delivery service was given, and, except for some lines of canned goods, no broken packages were sold; total expenses averaged 7% as compared with 10.6% for service wholesalers. The Mixter Company had long been a service wholesaler and continued this business in addition to the newer form. Of the total sales of $6,000,000, half were cash-and-carry.

In the Sioux City area, the Lowe Grocery Company operated as both a service and a cash-and-carry wholesaler with seven stations. In Chicago, the Earlton Company had sold for 20 years on a cash-and-carry plan. It handled about 1,700 items, including private brands, but did not carry staples such as sugar and potatoes. It had no minimum order requirement. Every two weeks 7,500 price circulars were sent to prospective customers. Other nonservice grocers in the same city handled 10 or 15 specials, and all sold at somewhat lower prices than the old-line wholesalers. A comparison of prices on a group of nationally advertised articles showed a total of $44.24 for the Earlton Company and $49.20 for the service wholesaler after deducting the 2% cash discount.

In entering this new territory the sales manager of the Adams Company wished to know whether he should place the names of any or all of these companies on the call lists of the salesmen and accept orders from them.

Some years later, a somewhat similar problem was encountered with respect to cooperative wholesale grocery companies. Two requests were received for shipments at jobbers' buying prices from co operative wholesale distributors in two large cities. The first, located in City A, had a business of approximately $2,200,000 annually and an expense ratio of 4.5%. It had 400 members, 65% in smaller towns and only 48 members in City A. It operated on the basis of list price with dividends, had 33 employees, no salesmen, carried on operations by mail, gave 10-day credit, issued weekly bulletins, and made deliveries three times a week. It carried $185,000 in stock and had a stock turn of nine times.

The second cooperative was located in City B. There were 69 stores in this group, and the sales volume amounted to approximately $500,000 during the first six months of its existence. No one store in the group had a sales volume of less than $40,000 annually. Each member paid a $250 membership fee and the cost of

goods it purchased plus expenses. The cooperative leased a public warehouse and carried a stock of $70,000. It made no deliveries and gave 10-day credit terms. The cooperative had issued $55,000 of stock.

Should the Adams Company have sold to these cooperatives at prices quoted to regular wholesale outlets?

7. The United States Shirt Company, at the close of World War II, was faced with a question of distribution policy. It had first developed as a company which sold through wholesalers but later had added direct sales to chain stores, so that presently wholesalers were giving the company only half as much business as chain stores. Furthermore, through a subsidiary, the company had been expanding its sales directly to retailers, including both haberdashers and department stores. It was proposed that the company concentrate its efforts on chain stores and through its subsidiary on retail outlets.

What factors are involved in the proposal to eliminate wholesalers?

8. "A company having its principal place of business in Norfolk, Virginia, operates branch offices and warehouses located in four North Carolina cities. The company is engaged in the purchase in its own name and behalf, and for its own account, of food products and other merchandise and in the resale and distribution of such merchandise in a trade area comprising North Carolina, the eastern portion of Virginia, and that portion of South Carolina which borders on North Carolina. These purchases constituted approximately 60% of its total volume of business. The merchandise so purchased was stored by the company in its warehouses and was in all respects its own property to deal with as it saw fit. The company insured the merchandise in its own name and at its own expense, paid such taxes as may be levied on the merchandise, and sold it to such purchasers at such prices and upon such terms as its judgment dictated, reaping a profit or sustaining a loss thereon as the case might be. If the merchandise was lost or damaged while in transit from the seller to the company, the company filed claims against the carrier for such loss or damage in its own name and for its own benefit. The company frequently entered into contracts of purchase with packers and canners of food products calling for future delivery of large quantities of goods at fixed prices. In such cases, the company's chances of profit or loss on the transaction usually depended upon whether the market advanced or declined after the contract was executed. Some of the canned food products purchased and resold bear the company's own private trade-marks or brands which were registered in the United States Patent Office. The labels for such goods were supplied by the company to the packer or canner who affixed them to the cans or other containers. In connection with the purchase of such food products and other merchandise in interstate commerce in its own behalf and for its own account, the company in many instances received and accepted, and for a number of years past had received, from the sellers of such merchandise, allowances and discounts in lieu of brokerage. In some cases, the seller remitted the amount of the brokerage to the company by check. In other cases, the company in remitting to the seller the purchase price of the merchandise deducted the brokerage, or a discount or allowance in lieu thereof, from the seller's invoice."

Is this setup consistent with brokerage provisions of the Robinson-Patman Act?

9. Does the manufacturer whose product requires aggressive selling ever find it possible to use wholesalers satisfactorily?

10. What factors are responsible for the change in the policy of several prominent textile producers from the use of independent selling houses to the establishment of their own sales organizations?

11. Is the service wholesaler in the grocery trade doomed to extinction? How do you account for the gradual disappearance of the large general dry goods jobbers?

C. DIRECT-TO-RETAILER OR DEALER DISTRIBUTION

The customary form which the third choice takes, namely, selling direct to retailers, is the sale to single or unit stores, department stores, or specialty stores of various types. Direct selling to retailers in some trades will involve relations with voluntary associations or buying syndicates. When powerful enough, these groups demand the right to purchase directly from the manufacturer, even when he customarily sells through wholesalers. Again, sale to retailers may involve sales to chains of retail establishments which sell either a single line or many lines, as in chain department stores, mail-order houses with accompanying chains of stores, chains of leased departments, and the like.

The manufacturer sells to the retailer because this policy appears to offer certain advantages which are not offered by that of selling through wholesalers. Direct selling to retailers offers to the manufacturer a greater degree of control of the consumer market than does dependence upon wholesalers, since only one step is interposed between the manufacturer and the consumer. It is possible through this method for the manufacturer to secure the cooperation of the retailers and make his advertising more effective. He may check up the distribution of his goods among retailers' departments; he may see whether or not goods advertised are available to those among whom demand is created. Furthermore, the manufacturer who sells directly to retailers will not be sharing sales effort with the many other lines which a wholesaler customarily handles. The possibility of more intensive selling effort is, therefore, one prime advantage of direct sales to retailers as compared with wholesale channels. At the best, a wholesaler can afford to spend only a limited amount of time pushing any one product; he may refuse to handle a product and devote all his effort to pushing his own private brands or to pushing the products of other manufacturers.

The prime objections to selling direct to retailers in many cases are the large organization required and the large costs and risks of such distribution. The task to be performed by a manufacturer in selling direct to retailers is so much greater than that of selling through wholesalers that the number of men and the financial resources required are correspondingly large. While selling direct to retailers may smooth out the curve of sales, it does not remove the increased risk of credits in selling to retailers and the increased financial burden. Only a company selling goods with wide demand and with a large potential market in comparison with the area covered can utilize to advantage the direct method. In limited areas, the number of dealers is few. It may be possible for smaller manufacturers to adopt direct-to-retailer distribution, but where distribution is desired in tens of thousands of outlets,

where purchase is frequent, the task easily surpasses the capacity even of large enterprises. Furthermore, the maintenance of sound policy amidst a welter of apparently or really conflicting interests calls for unusually intelligent handling of the relations of manufacturers to chain stores, department stores, mail-order houses, cooperative buying associations, super markets, and other newer forms of retail institutions.

The sale of industrial goods through distributors usually does not involve more than a single level of dealer or wholesaler-dealer selling to users or industrial consumers. An industrial distributor or a small supply house sells direct to factory and buys usually from manufacturers or other producers. A surgical supply house sells to hospitals and physicians. A specialized fastener wholesaler sells to original equipment manufacturers, who may sometimes buy direct when large quantities are involved. There are, however, hardware retailers who serve as dealers and as industrial distributors for certain lines, representing selected manufacturers in selling to small local factories and to contractors. These combinations of wholesale and retail functions are not uncommon in certain fields in the United States. They are observed frequently in foreign lands.

21. BURROUGHS ADDING MACHINE COMPANY (A). Distributive Organization for Adding Machines

Part I. The general sales manager of the Burroughs Adding Machine Company was faced in 1951 with the task of deciding what changes, if any, should be made in the distributive organization for adding machines to help the company gain a greater share of the total market.

Burroughs had sold direct to the user through its own sales branches for more than 60 years. The salesmen, who were paid a salary plus commission, were given exclusive territorial franchises, a feature which had been strongly emphasized to attract and keep able sales personnel. The company had pointed out that to a large extent each salesman was in business for himself; that he had the opportunity to establish a high level of earnings by properly developing the territory for which he alone was accountable. Burroughs did not sell through office supply dealers, as did most of its competitors; it was therefore regarded by dealers as a competitor rather than a source of supply.

For many years the company had enjoyed an expanding sales volume and a position of undisputed leadership in the adding machine field. In more recent years, however, its percentage share of the market had declined. The product line had grown considerably and the salesmen were unable to give as much attention to adding machines as formerly. In 1951, the company sold two broad groups of items. Several classes of adding machines and cash registering machines were in Group A. They were of standardized manufacture and required no installation. They ranged in price from $100 to $400, and were sold to a relatively large number of users whose requirements were not

so complex as to involve any analysis or presale work on the part of the seller.

Product Group B consisted of both standardized and custom-built accounting machines which required technical knowledge for their proper application and installation. They were priced from $400 to $5,000, and considerable analysis of customer needs often was necessary before a sale could be made. Included in Group B were several classes of bookkeepers, validating and receipting machines, bank and commercial accounting machines, and microfilm equipment.

In recent years Burroughs had devoted more of its product development and sales effort to the larger items of equipment than to adding machines. At the same time, competition in the adding machine market had become more intense. Several firms recently had entered the field to bring the total number of domestic companies bidding for the business to 10. In addition, several imported machines were on the United States market. The newer 10-key machine had captured about a third of the total adding machine sales volume, and Burroughs did not yet have a 10-key adder in its line.[1]

In 1948, executives estimated that Burroughs had 22%[2] of the total adding machine sales volume for the United States, and set about to determine how this figure might be increased.

A suggestion that independent retail dealers be used met with opposition from some top sales executives. They feared an adverse effect on the morale of the salesforce from a change in the long-standing policy of selling direct and giving salesmen protected territories. They believed that the goal of added sales could be attained with the existing sales organization.

To test this theory, a special sales program for adding machines was conducted in late 1948 and early 1949. It represented an all-out effort to see what the salesforce could accomplish under favorable circumstances. The company's rigid trade-in policy was relaxed, and prices were adjusted downward to make them more competitive. Extensive advertising was carried on at both the national and local levels, the ads containing prices as well as descriptions of other sales features. Sales promotion specialists worked with salesmen in the field, and a merchandise prize contest for salesmen was conducted on adding machine sales.

The sales efforts boosted the company's share of the adding machine market to more than 27%. Sales of other items in the line suffered somewhat, however, and Burroughs' share of the market figure returned to about 22% in the months following the end of the special campaign.

A study made by the market research division showed that Burroughs' competitive standing varied greatly by type of customer. The company's

[1] By the summer of 1952, it had developed such a machine but had not yet placed it in production or released it for sale.

[2] Disguised estimate.

percentages of the total number of adding machines in use in each of several market groups follow:[3]

Banks	82%	Government	50%
Utilities	59	Wholesaling	28
Manufacturing	42	Retailing	3

There were about 1,500,000 retail establishments in the United States.

The results of the 1948–1949 sales program and the findings of the market survey prompted further consideration of changes that might be made in the way the company sold adding machines. After considerable study, the general sales manager and his staff in 1951 submitted to the executive vice president a report on the distribution of Burroughs products (Exhibit 1). They recommended that Group B products continue to be sold direct by salesmen with protected territories, and gave careful consideration to the following eight plans for distributing Group A items:

1. Direct full-line salesmen with protected territories (the plan being used in 1950).
2. Direct full-line salesmen with nonprotected territories.
3. Dealers with protected territories.
4. Dealers with nonprotected territories.
5. Direct full-line salesmen plus dealers in selected areas which could not be covered economically by the company's direct salesforce. Dealers would have protected territories.
6. Direct full-line salesmen plus dealers, nonprotected territories.
7. A separate direct salesforce, salesmen having protected territories.
8. A separate direct salesforce, nonprotected territories.

The conclusion of the report was that Plan 6 should be used, supplemented by Plan 8 in areas of high sales potential when desirable for competitive reasons.

Should the executive vice president accept the recommendations?

Part II. The decision to go into a dealership program was made in January, 1952, and a plan for so doing was agreed on in June. Effective July 15, Group A products were to be sold through both dealers and the company's full-line salesforce with nonprotected territories. Dealers were to sell 11 adding machines and 4 cash registering machines which were priced from $100 to $400 and which required no installation service. Customers buying from dealers would receive the usual product guaranties and would be serviced by the regular Burroughs branches.

Branch managers were to appoint dealers wherever they thought that such appointments would increase the sale of the products concerned. There were

[3] Figures are disguised but they reflect the pattern of penetration by customer groups.

Exhibit 1. Burroughs Adding Machine Company. Distribution of Burroughs Products

The Problem. The distribution problem is one of marketing a high volume of two general classes of products manufactured or distributed by the company, at the lowest possible cost per unit.

Product Group A consists of a line of standardized manufacture requiring no installation and sold to a relatively large number of users whose requirements are not so complex as to require any analysis or presale work on the part of the seller. . . .

Product Group B consists of a line of either standardized or custom-built manufacture requiring technical knowledge for application and installation. Considerable analysis and presale work on the part of the seller is frequently required. . . .

The Objective to Be Accomplished

1. To sell the greatest number of units of all products at the lowest possible price.
2. To market all products in such a manner that the company's name will continue to be respected by users and potential buyers.
3. To maintain distribution outlets, strategically located, to serve customers with minimum delay and inconvenience.
4. To instruct properly or educate each user to insure that user the greatest return on his investment.
5. A fair plan of remuneration and opportunity for promotion which will insure high morale and reasonable income for all persons directly engaged in the distribution of the products.
6. To retain for the company profits which may result from the distributive function.

Why It Is Advisable to Market Product Group B Direct. In most large organizations the purchase of this type of product is influenced directly by several men. This is easily understood when we note certain facts concerning this type of product. Business systems equipment is bought comparatively infrequently, so that for several executives to give some attention when negotiations are under way is not too time consuming. A considerable sum of money is usually involved, so that several executives are interested. The same result follows from the fact that the installations actually decided upon will touch closely each executive—for example, the Works Manager, as the installation of a stock record system may aid in reducing the finished parts inventory; the Comptroller, as his organization will post and audit the records, and so on. Finally, such purchases usually involve technical knowledge for application to and installation on the customer's work. This means that the executives many times call in their own systems and procedures men or get advice from professional accountants or industrial engineers.

For the above reasons, not only is the buying of such installations influenced by several persons, but also these buyers are experts or else they have expert advice. They are able to judge adequately the statements of the sellers as to the merits of the equipment offered for sale. Their ability enables them to pass on the real merits of what is offered. At times, rather than let the seller analyze requirements and make recommendations, a large company will have its own systems and procedure engineers draw up specifications of the installations desired and submit them to the various possible sources of supply. Only sellers which have expert technical men in their organizations can serve this type of customer with a high degree of efficiency. Only buyers which have expert technical men in their organizations (or hire them for each occasion) find this possible. There are thousands of smaller businesses which do not have technical assistance at their command; consequently they depend upon the manufacturer for advice and counsel.

Purchasers of business systems equipment are interested in buying equipment which will aid them in making money and they expect accrued savings to pay for the equipment within a reasonable length of time.

While the nature of business machine installations makes direct contact between buyer and seller economical, even if no savings in cost were obtainable, buyers would still favor the direct method.

It is a generally accepted fact that buyers of such installations prefer to buy directly from the manufacturer. This arises from the fact that when they deal directly they feel, and rightly so, that new ideas and suggestions may be obtained from the manufacturers' representatives which would never come from dealers' salesmen. Furthermore, the installations usually must be made by representatives of the manufacturer.

Direct sale of such equipment makes it possible for the manufacturer to maintain branch sales and service offices. Such offices are looked upon with favor by buyers, as they regard them as conveniently located places at which complaints may be registered or from which advice and technical information, and expert mechanical service, may be obtained.

Exhibit 1. BURROUGHS ADDING MACHINE COMPANY. Distribution of Burroughs Products (*Continued*)

Probable Marketing Plans—Product Group A

1. Direct (Full-line) Salesmen—Protected Territories. This is our present plan. The salesman is credited with all sales made in his territory regardless of who obtained the order.

ADVANTAGES

With a directly controlled organization of this type the company can expect its representatives to "sell" the company's name as well as the product. Being directly employed by the company, he knows more about the company's history and policies and is able to use this knowledge in his sales work.

Because Product Group A and Product Group B are sold by the same man a person with accounting knowledge as well as sales ability is required. Thus men of high caliber are attracted to the business. Since a man of this caliber can advance through the various steps such as Named Account Specialist, Sales Promotion Representative (Field), Sales Promotion Representative (Home Office), Zone Sales Manager, Branch Manager, Regional Manager, etc., he stays in the business.

A direct selling organization of this type can be taught more about the uses of the products than can those representatives not directly controlled. Direct representatives are, therefore, better able to instruct customers in the proper use of the product, insuring the user maximum return on his investment.

Standard selling prices and ethical practices can be better maintained when the product is distributed through a directly controlled selling organization.

When a man is assigned to a definite territory his traveling expenses can be controlled better than if he is allowed to work where he pleases.

DISADVANTAGES

With this plan sales can be increased, all other factors remaining unchanged, only by increasing the number of salesmen. The law of diminishing return limits the number of men the company can afford to retain on its payroll using our present plan of paying a base salary plus a commission.

It requires time to recruit and train men for selling, making it difficult to expand the organization quickly during "boom" periods.

Conversely, it is equally difficult to reduce quickly the size of the selling organization, under this plan, during times of "stress" because of a natural reluctance to release men in whom considerable training time has been invested.

Coverage is restricted, therefore, to the amount obtainable from a limited organization. The frequency with which the Lost Business Reports carry the comment "Purchased ——— machine. Not in on deal" is evidence of the business lost through inadequate coverage.

2. Direct (Full-line) Salesmen- Nonprotected Territories. This plan is like our present plan except that salesmen would be given sales credit on any order for Product Group A equipment regardless of point of delivery. Delivery of this group of equipment, outside the salesman's defined territory, would be made direct to the customer from Material Distribution points. Printed instructions would be relied upon to give the user information regarding the proper operation of the equipment. Calls resulting from customer failure to obtain satisfactory results from the equipment would be handled by the Service Department the same as they are now.

Product Group B would continue to be distributed as under our present plan.

ADVANTAGES

In addition to the advantages offered by Plan 1 this plan would increase sales because the salesman would have more incentive to work on those concerns who buy in his territory for delivery elsewhere.

This plan would be easy to administer because there would be no splits in sales credit to account for.

DISADVANTAGES

The principal disadvantage of this plan is that it might cause friction between the prospect and the company because salesmen at the delivery point and normal ordering point are both trying to get the order.

3. Dealers—Protected Territories. This plan would distribute Product Group A through dealers only, with Product Group B being distributed as under our present plan. Dealers

Exhibit 1. BURROUGHS ADDING MACHINE COMPANY. Distribution of Burroughs Products (*Continued*)

would be protected on sales in their defined territories in much the same manner as we protect salesmen under our present plan. Service under the guarantee would be supplied by us and thereafter where we can get the business.

ADVANTAGES

The principal advantage of this plan would be to reduce our fixed costs, such as salaried sales, office and supervisory personnel and the cost of office, display and storage space.

In times of stress, the dealer, not we, would carry the fixed expenses.

This plan would permit us to train our direct, Product Group B, salesmen on those products alone, thus giving us better representation in that field. At the same time we could provide our dealer organization with such training assists as would make them most effective in selling Product Group A.

This dealer plan would probably provide us with better coverage in low potential areas than we could economically provide with our own people.

DISADVANTAGES

With protected territories we would have most of the disadvantages we now have with our present plan.

It would be difficult to provide adequate coverage in high potential areas because a dealer cannot build up an adequate salesforce any more than we can.

We could not expand our number of outlets at will with protected dealers' territories any more than we can with our present direct plan.

If a dealer was not doing a good job in his territory we would have the same difficulty in correcting the situation as we now have with a nonproducing salesman.

A further disadvantage of this plan is that the dealer, normally, would not be as imbued with company policy and background as a direct representative. The customer is, therefore, one step further removed from personal contact with the manufacturer.

It is difficult to train personnel not directly controlled. There would, therefore, be little uniformity in the methods used for selling Product Group A.

Dealers' representatives ordinarily would not be as carefully selected as those we employ directly. The public's opinion of our company might suffer as a consequence.

Dealers, normally, would not be as interested in educating customers in the proper use of their equipment. Their main interest, most frequently, would be to sell as much equipment as possible. While this is true also with direct salesmen, a full-line salesman is interested in other sales possibilities and is more apt to do whatever is necessary to retain the customer's good will so that he may merit such other business.

Dealers, despite such contractual control as may be exercised, will deviate from standard prices and practices if it is to their interest to do so. The disciplinary measures at our disposal and the smaller cost operating margins are usually sufficient deterrents to eliminate such deviations on the part of direct salesmen.

With dealers selling only Product Group A and direct salesmen selling only Product Group B, a customer could not satisfy his complete need for Burroughs products from a single source.

4. Dealers—Nonprotected Territories. This plan would distribute Product Group A through dealers who would be permitted to sell these products to anyone regardless of location. Product Group B, like plan 3, would be distributed through direct salesmen who would have defined territories and would be protected on all sales of Product Group B in that territory.

ADVANTAGES

The advantages of this plan would be the same as plan 3 plus the advantage of being able to open up new outlets as additional coverage is required, either because business conditions require it or because the dealer (or dealers) in a given general area is not getting the business we think he should.

DISADVANTAGES

The disadvantages of this plan are the same as for plan 3 except those regarding ability to expand or contract the number of outlets.

5. Direct (Full-line) Salesmen—Plus Dealers—Protected Territories. This plan would be the same as our present plan except that a dealer would be permitted to sell Product Group A equipment in a defined territory and would receive sales protection on those products in that territory in about the same way in which we protect a direct salesman. Product Group B

Exhibit 1. BURROUGHS ADDING MACHINE COMPANY. Distribution of Burroughs Products (*Continued*)

would be handled by a direct salesman in that territory. This plan would be used principally to give us local representation on Product Group A.

ADVANTAGES

The principal advantage of this plan is that it provides local representation in low potential areas which cannot be economically covered by direct representation. This plan should increase sales without increasing unit selling costs or fixed expenses. In fact, it would be possible to allow dealers up to 30% off the list price without increasing our per cent of sales and facilities costs to sales.

This plan would retain most of the advantages inherent in our present plan by providing direct sales coverage in high sales potential areas on all products, good coverage of all key accounts by properly qualified men plus local dealer coverage for Product Group A.

DISADVANTAGES

Because this plan provides for protected dealers and salesmen's territories, it would be difficult to expand or contract outlets quickly or provide coverage quickly where current representation was not doing the proper job.

As with plans 3 and 4, dealers' representation would not be of as high a caliber or as enthusiastic as direct representation. Nor would it be possible to train dealer representatives as well as we do our own people.

Our present organization might object to giving up territory to dealers even though that territory is not now effectively covered. Block records would assist greatly in overcoming that objection.

6. Direct (Full-line) Salesmen—Plus Dealers—Nonprotected Territories. With this plan dealers would be permitted to solicit Product Group A orders from anyone, but from a practical standpoint they would solicit business only from businesses in their immediate vicinity. Salesmen would operate in defined territories and be protected on sales in Product Group B, but would not be protected against dealer sales made to or delivered to concerns in their defined territories. Neither would they be protected on sales of Product Group A made by other salesmen for delivery into their territories. Salesmen would not be permitted, however, to solicit or take orders from concerns outside their territories.

ADVANTAGES

This plan would increase sales of Product Group A because we could expect to get essentially the same territory coverage we now get from direct salesmen plus dealer sales resulting from walk-ins and/or customer solicitation by dealer's salesmen, plus the added incentive of paying full commission to the person obtaining the order.

Unit costs should be less. We could allow discounts to dealers equal to our present sales operating expense percentages without increasing our unit costs, assuming, of course, that dealers' business would all be additional business. Close coverage would be possible at a lesser cost than that of the number of direct salesmen required to produce an equivalent result.

With this plan, stagnant areas could be activated readily by appointing additional dealers where direct man power or current dealers are not doing the job.

Well qualified men would be attracted to the business because this plan, like plans 1 and 2, requires high caliber direct salesmen for its success. These men would always be the backbone of our organization and would remain in the business because it offers an opportunity for advancement through a number of different levels, including positions in management.

With direct salesmen covering defined territories, users generally will be kept fairly well informed as to the correct use of their Burroughs machines because these salesmen also sell Product Group B and will want to maintain and develop contacts for the sale of that equipment.

Salesmen, generally, will welcome a plan which will compensate them fully on personal sales of Product Group A as contrasted with our present plan of splitting commissions between delivery point, order point and quantity agreement control point. This plan should reduce friction and be easier to administer than our present plan.

DISADVANTAGES

Like all dealer plans, this plan would not develop as much good will or identify the company's name with the product as well as a complete direct sales organization would do. How-

Exhibit 1. BURROUGHS ADDING MACHINE COMPANY. Distribution of Burroughs Products (*Continued*)

ever, with direct salesmen covering the same territories in which dealers may be operating, this fault is reduced considerably.

The inability to control dealers' prices and ethics completely generally looms as the principal disadvantage to this plan. It is felt, however, that most salesmen would prefer to have a Burroughs machine sold by a dealer, in his territory, instead of a competing machine, even if the dealer used sharp practice in getting the business.

There is a possibility that the user will not be properly instructed in the use of equipment in Product Group A where the equipment is shipped direct to him, as it will be when a dealer or salesman takes an order for delivery outside his territory or zone of operation. This would happen with large concerns like Kresge, Prudential, and others who buy at a central point for shipment to numerous branches. This should not be considered as an overwhelming obstacle as most equipment of this type can be satisfactorily put into operation and produce reasonably good results from printed operating instructions.

7. Direct Product Group A Salesmen—Protected Territories. This plan provides for distributing Product Group A equipment by different direct salesmen than those distributing Product Group B. Sales protection would be given to these salesmen working in defined territories. This plan would be used primarily in high potential areas.

ADVANTAGES

Each class of salesmen, in limiting his coverage to a few products, is able to absorb specialized sales training and apply it more aggressively and intelligently. Thus sales of each product group would increase.

DISADVANTAGES

While this plan would provide close coverage with sufficient man power, the cost would be high.

8. Direct Product Group A Salesmen—Nonprotected Territories. This plan is the same as plan 7 except that Product Group A salesmen would not receive protection on sales made in other territories for delivery into their territory.

ADVANTAGES

This plan has the same advantages as plan 7 plus the added incentive to work for an order even though delivery will be made elsewhere.

DISADVANTAGES

High cost except perhaps in high potential areas.

Conclusion. The advantages and disadvantages of the plans described above are summarized on the attached exhibit. From this summary it is concluded that the best way to distribute Burroughs products would be to use plan 6 to give good coverage in low and average potential areas supplemented, when required for competitive reasons, in high potential areas, by plan 8.

Procedure for Installing Proposed Plan. Before any plan, not providing protection on sales in defined territories, could be installed it would be necessary to amend present contracts and Decisions in Force to remove such protection.*

A rider amending the commission clauses of salesmen's and managers' contracts would be necessary.

Decisions 112, 113, 114 and 117 would need to be amended to eliminate sales credit splits on Product Group A equipment.

Because this would be a major change in company policy, it probably should be discussed with each manager and salesman individually and his signature on the rider should be obtained at that time. The field should be covered as quickly as possible to avoid circulating rumors.

After the field had been covered an official release of changes in the Decisions could be made effective within thirty days of date of release.

Appointment of dealers could then be made as required.

* Decisions in Force referred to a printed booklet which outlined the company's policy concerning business relations with its field organization. The booklet had been used for more than 40 years and was revised from time to time to incorporate policy changes.

Exhibit 1. BURROUGHS ADDING MACHINE COMPANY. Distribution of Burroughs Products (*Continued*)

Marketing plans for Product A The plan will	1 Direct (full-line) salesmen, protected territories	2 Direct (full-line) salesmen, nonprotected territories	3 Dealers, protected territories	4 Dealers, nonprotected territories	5 Direct (full-line) salesmen plus dealers, protected territories	6 Direct (full-line) salesmen plus dealers, nonprotected territories	7 Direct Product A salesmen, protected territories	8 Direct Product A salesmen, nonprotected territories
1 Increase sales					X	X	X	Y
2 Lower unit selling costs					Y	X		
3 Reduce % cost of salaried sales, office and supervisory personnel to sales			\	\	\	Y		
4 Reduce % cost of display, office and storage space to sales			\	\	\	\		
5 Provide economically close coverage in high potential areas					\	\	\	\
6 Provide economically close coverage in low potential areas			\	\	\	\		
7 Quickly provide more or fewer outlets as required by economic conditions				\		\		
8 Provide means for quickly activating stagnant areas				\		\		
9 Sell the company's name as well as the product	Y	\					\	Y
10 Permit proper sales training to compete aggressively and intelligently							Y	\
11 Attract well qualified men to and retain them in the business	Y	\			\	Y		
12 Provide users with necessary information regarding use of the product	X	\			\	\	\	\
13 Compensate salesman who gets the order		\				\		X
14 Be acceptable to dealers				\	\	\		
15 Maintain standard prices	Y	\					\	\
16 Be easy to install piecemeal	\				\		X	
17 Reduce disputes between direct representatives		\			Y			\
18 Provide equal opportunity for advancement of direct representatives	\	Y				Y		

no qualifying restrictions on the selection of a dealer except that he must have a retail license and a credit standing satisfactory to the Burroughs home office. It was expected that most dealers would come from the ranks of an estimated 15,000 outlets which served the office-supply market. About 5,000 of these were the most likely prospects, as the company was most interested in dealers who could buy in quantity.

The dealer agreement was simple and could be terminated by either party in 30 days. Dealers were not permitted to bid on U.S. government business and the use of methods of making sales or deliveries which might be harmful to Burroughs was forbidden. Sales to dealers were to be made by the branch manager or, in some of the larger branches, by a special dealer representative and not by the full-line salesmen.

Dealers were to receive a margin of 30% off list price. Competitors offered dealer margins of from 30% to 40%. While the majority was close to 40%, these manufacturers did not assume the guaranty obligation while Burroughs agreed to perform any mechanical service required during the first year of use by the dealer's customer without charge to the dealer or customer. Burroughs expected its dealers to maintain suggested retail prices and avoided signing up obvious price cutters. The company had no plans for using resale price maintenance contracts, although the latter were being given consideration.

The responsibility for announcing this major change in policy so that it would be understood and accepted by the company's 1,500 full-line salesmen was that of the general sales manager. The schedule of special arrangements for carrying out this task was as follows:

June 24—The eight regional managers were brought into the home office in Detroit. The new plan was described by the chief sales executives and thoroughly discussed.

June 30–July 2—The regional managers presented the plan to the 130 branch managers who had gathered at their respective regional offices. The general sales manager and members of the home office staff also spoke at these meetings.

July 7 and 8—The branch managers announced the dealer plan to their salesmen at the branch offices. What the salesmen were to be told had been worked out at the home office and was incorporated in a suggested presentation for branch managers' use (Exhibit 2).

July 15—The dealer program was to become effective. This date was one week following the announcement to the salesforce because the company was required to give seven days' notice of any changes in the contract with the salesmen.

Was the presentation of the dealer plan to the salesforce likely to attain the desired objectives?

Exhibit 2. Burroughs Adding Machine Company

(NOTE: Please study carefully before presentation)

SUGGESTED PRESENTATION FOR USE BY BRANCH MANAGERS

In a few days, Burroughs will publicly announce a new expanded marketing program which is of tremendous importance to the future growth of the company and thus to every member of the organization. The program has been developed after a great deal of thorough and careful study, and the purpose of this meeting is to give you the details. I would like to begin by reviewing some of the factors which have influenced its development.

Need for Expanded Marketing Effort. You are all familiar with the fact that Burroughs began as a manufacturer of adding machines, and in the early years of its existence, rose to a position of undisputed leadership in that field. For many years it was true to say that Burroughs had no competition. At the same time, as the company grew, its line of products expanded. Accounting and systems machines were added to the line. The most recent examples, of course, are Microfilm and the Sensimatic series.

This growth trend in the company's operation is continuing. The institution of an intensive research program in the field of electronics, the acquisition of the Control Instrument Company in Brooklyn, the breaking of ground this week for a new research laboratory in Philadelphia, are all indications that in the future the company will continue to add new products to its marketing operation.

While all this has been going on, our competitors have been expanding too. You all know how the number of companies engaging in the manufacture and distribution of business machines has grown in recent years. And that is particularly true in the adding machine field, with the result that deep inroads have been made into a market which was once almost entirely ours.

The principal reason for the rapid growth of our adding machine competition is this: The great bulk of the marketing job for this type of equipment has been delegated by manufacturer to thousands of dealers who have made a tremendous impact on the market. They have been able to do it because the adding machine, like the typewriter, has become an accepted commodity.

The situation is further aggravated by the fact that, more recently, machines manufactured abroad have been introduced in this country through dealer outlets.

The remarkable fact is that, in the face of this growing competition in the adding machine field, Burroughs representatives have done a splendid job. That is especially remarkable when we realize that the company has continuously introduced new accounting and systems equipment, leaving less sales time for adding machines. And that situation will be further aggravated in the future by the continued development of our product line.

I think this problem can best be understood if you will just look for a moment at your own territory. Count, if you can, the number of competitors you have selling adding and cash registering machines of other makes -not only direct representatives of other manufacturers, but also dealers and their representatives, all of whom are presenting other types of equipment to the customers in your territory.

We all recognize, I am sure, that as more people in our territories come into contact with competitive adding and cash registering machines, our job becomes tougher--not only in selling adding and cash registering machines, but also in selling larger and more profitable types of equipment.

An indication of the strength of our competitors is the fact that one manufacturer alone has nearly 15,000 dealers in the United States—that's an average of 10 for each Burroughs territory- and that, bear in mind, is only one of our competitors.

Now, in view of all these facts, you might very well ask: Why hasn't the company taken steps earlier to solve the problem? The fact is that our competitors have all recognized it. Burroughs is the last major company in the industry to embark on an expanded marketing program designed to produce the sales volume in adding and cash machines required under present conditions.

Certainly the company has recognized the problem just as I'm sure you have. But any major undertaking must always be considered in the light of its effect on the entire organization, including certainly the Marketing Activity. A great many things have been done in Burroughs in the past five years -you all know what they are. Now, for the first time, the company can expand its distribution in a way that will benefit the entire organization.

The Objective. Very simply, our objective must be to sell more adding machines to more people—and to do so, it is clear that we have to increase the number of selling hours spent on these products.

Exhibit 2. BURROUGHS ADDING MACHINE COMPANY (*Continued*)

We all recognize that a good product properly advertised isn't enough in this highly competitive field. The fact is, the largest sales volume will be achieved by the product which is presented most frequently to the buying public.

New Products. A question that might naturally come to your minds is this: If we improved our adding and cash registering equipment or add other models to the line, wouldn't that achieve the results we want? Why, for example, hasn't a 10 key machine been released? It's no secret that the company has developed a 10 key adding machine. But it is not ready for release and, frankly, even if it were, we do not have a sufficient number of people to sell it in the volume necessary to produce it at a price that will capture the market. New and improved products alone aren't the answer.

Incidentally, the situation with respect to the duplex subtractor is somewhat different. Like other accounting and systems machines, requiring technical knowledge for their application, the duplex subtractor line will be marketed only by direct Burroughs representatives. The delays encountered in its manufacture have now been overcome and it will be released in a matter of months.

Reduced Prices. Another question that might be raised is this: Could we expand our sales by reducing prices? We probably could expand sales temporarily in that way by enabling the salesmen to get the order more quickly. But low prices or excessive trade-in allowances alone will not sell machines in the quantities we must sell on a continuing basis. If this were true, the lowest price machine would be sold in the greatest quantity. But this is not the case. The companies doing the best job today are *those with the greatest number of people showing and selling their products.*

Incentives. Another question: Couldn't we sell more adders and cash registering machines if we increased the incentive? It is true that it would expand the sales volume on these products a little.

With the Par Stars campaign, which was, in effect, a commission rate increase, the temporary increase in the sale of adding and cash registering machines was only approximately 5%. This slight increase would not even approach our expansion objective, nor could it be expected to be of a permanent nature. Further, because of the large number of new men we had at that time, it is not certain whether this same increase would have resulted had this program been extended only to experienced field salesmen. Moreover, it is difficult to measure the detrimental effect on the sale of other products and the cost to the salesforce in dollars and cents.

Thus, we know from experience that if we want to maintain adequate sales volume in accounting and systems machines, *as well as in adding and cash registering machines*, the only answer is to increase selling hours. That was our problem—*to get more people selling more adding and cash registering machines to more people.*

The question was: How could we achieve that objective? There were several possible ways.

Sale by Service Division. We could have the Service Division also sell adders and cash registering machines. No one would dispute the ability of the service organization to sell these products. Every serviceman will agree, however, that he has a full day's work now. To take on this additional job and produce the required results would mean *reducing the number of hours spent providing service to customers' machines.*

Hire More Men. We could hire more men for general territories. But to meet effectively the sum total of all competitors selling adding and cash registering machines, including dealers and their representatives, we would require an equal number of people selling Burroughs adding and cash registering machines. If we expanded our organization to this point on an exclusive territory basis, *each full line territory would be drastically reduced.* Furthermore, the greater adding and cash machine volume resulting from this increased man power would be temporary, because the kind of men we employ naturally gravitate to the sale of accounting machines just as soon as they are able to do so. This was proved by the last 500 men we employed, as well as by the old Junior-Senior type of operation. To avoid drastic territory reductions, therefore, the only alternative is to find some way to get more people to sell Burroughs adding and cash registering machines on a nonexclusive basis.

We could hire adding and cash registering machine specialists. But if new men were hired and trained only for these products, they would be unwilling to continue such specialization unless they were given the same earnings opportunity as they would have in their own full line territory operation. In order to keep selling costs in line, *this specialization could be accomplished only by removing these products from the regular territories.* Moreover, it would not be practical to hire the required number of people to get the job done.

Sales through Dealers. Therefore, the only solution to the problem of achieving the necessary increase in volume in adding and cash registering machine sales was *to distribute these products*

Exhibit 2. Burroughs Adding Machine Company (*Continued*)

through dealers. Having reached that conclusion, the next step was to determine the best method.

No solution to the problem would be satisfactory unless it recognized the fact that the Burroughs sales organization has done a commendable job in selling adding and cash registering machines-- particularly with the sales time they have been able to devote to these products. Thus, the plan adopted will supplement the continuing distribution of these products by our present organization.

The decision has been made to distribute eleven of our present styles of adding machines and four of our present styles of cash machines through dealers *and* through the Burroughs organization on a nonexclusive basis.

Sales to dealers will be handled by the branch manager or, in some larger branches, by a special branch dealer representative. Salesmen will continue to receive sales and commission credit on sales made by them in their assigned territories—but not on sales made by or to dealers.

Careful consideration was given to a plan for having the salesman sell the dealers in his territory. But it was evident that if the salesman were given the responsibility of selling to dealers, too much of his time would be diverted from his most profitable field. Naturally the salesman will continue to sell adding and cash registering machines in his normal operation of the territory.

It was finally concluded that the most practical plan would be for the branch manager or his direct representative to handle dealer sales. This plan will provide close contact between the dealer and the person responsible for both sales and service operations in the area in which the dealer is located.

NOTE TO MANAGER: *Do Not Read.* (You may find it necessary to reassign all or part of your personal territory in order to have sufficient time to devote to both your salesmen and your dealers. If this applies, you may wish to point out that such reassignment will work to the advantage of your salesman.)

Do Not Read Unless It Applies. (A plan was also considered whereby the Zone Sales Manager would sell to dealers in his zone. This plan was not adopted because named account and line of business Zone Sales Managers could not participate because they would have no dealers in their zones. Furthermore, it did not provide the answer to our objective to sell more machines of all classes. We want to sell more accounting and other system equipment as well as more adding and cash registering machines. To give the responsibility of selling dealers to Zone Sales Managers would necessarily reduce the amount of time they could spend with their men, training them on system equipment and helping them to get more accounting machine business. It is in this area that the Zone Sales Manager can be of most benefit to himself, his men, the customer and the company.)

The Dealer Plan. The general outline of the plan is as follows:

A. Branch Managers will appoint dealers wherever and whenever such an appointment will increase the sale of Burroughs adding and cash registering machines.

B. Dealers will be permitted to buy for resale any narrow carriage Class 8 machine or any narrow carriage Class 9 machine with style numbers ending between 01 and 99.

C. Customers will receive the same guaranty on new Burroughs machines sold by dealers as on those sold directly by the company, and will receive mechanical service during the guaranty period and afterward, if desired, through the regular Burroughs service organization.

   I'd like to say, parenthetically, that this part of the plan is one of the best guarantees of its success. The fact that the dealer's customers will have the benefit of Burroughs service will mean more sales--more Burroughs machines in use.

D. Dealers will not be permitted to bid on U.S. Government business, nor will sales by dealers be counted on quantity agreements.

E. Our Dealer Agreement requires that the Dealer not solicit sales or make deliveries by use of methods which may in any way be prejudicial or unfair to any representative of the company.

This plan to expand the business benefits every Burroughs employee.

. . . because it puts *Burroughs* machines in use—instead of competing machines.

. . . because more Burroughs adding and cash machine users mean more potential users of Burroughs accounting and other systems equipment.

. . . because more people talking about Burroughs machines helps Burroughs representatives sell more Burroughs machines.

. . . because if more Burroughs machines are sold, there is more revenue—and more revenue

Exhibit 2. BURROUGHS ADDING MACHINE COMPANY (*Continued*)

means better jobs and greater security for salesmen, servicemen, office people, and all Burroughs employees.

The following Field Force Letter #3340 places this plan into effect.

(Manager please read)

Now some of you may have questions. Rather than take the time of everyone on individual questions, I'll be glad to discuss the program with you individually as soon as we can get together.

22. COVERITE COMPANY. Distribution of a New Product

In 1946, the Coverite Company, one of the country's largest manufacturers and distributors of paint, was in the process of determining the proper channels for certain specialty products developed during World War II. The company's distribution organization included 350 wholly owned branch outlets and about 45,000 agents and dealers throughout the United States and several foreign countries. The products which the Coverite Company intended to distribute were a weed killer and a DDT insecticide. Market surveys had shown that weed killers and insecticides were often sold in large quantities through grocery and drug stores. The company had no experience in dealing with these outlets, so that although it did have a large sales organization, it was undecided whether or not to enter these new fields. Undoubtedly the market for specialty products through grocery channels was large, but the salesmen were not accustomed to selling to grocers, and there was also the danger that the old line outlets might react unfavorably if grocery stores were added.

The Coverite Company was organized in a middle-western city in 1866 to sell paints, oils, varnishes, and glass at wholesale and retail. In 1873, it first began the manufacture of paint and attempted from the outset to produce a high-quality product. The company was incorporated in 1944, and the growth of its business had been steady. Annual sales in 1945 were over $125,000,000 with daily business exceeding that of the entire first year. Its employees numbered over 9,000, and its products included paint, varnishes, colors, stains, enamels, lacquers, white lead, chemicals, linseed oil, insecticides, disinfectants, cleaners, polishers, and allied products. The company had 100 warehouses and 15 principal plants with a total floor space of 2,500,000 square feet.

The Coverite Company controlled several subsidiaries which manufactured paints, varnishes, insecticides, dyes, and colors, and one subsidiary engaged in the mining, reducing, and smelting of lead and zinc. The parent company had aided its subsidiaries in developing many new products. All the subsidiaries were regional companies with the exception of one which had established a national organization, and each had its own executives and sales organization. All business relations with the parent company were carried

on primarily by the president and other top executives of the subsidiaries. Although the parent company sold principally through dealers, the six subsidiaries distributed primarily through wholesalers. Each subsidiary had its own price arrangement on paints, but the net prices for the same grade of paint were nearly equivalent. The only exception to the independent position of the subsidiaries was made in the case of the specialty products which had standardized distribution, prices, and promotion.

The field sales organization of Coverite was comprised of eight districts which were further subdivided into 33 divisions. Each district had its own district manager, and each division its own sales manager. Since many of the industrial and transportation sales were made to national accounts and handled at company headquarters, the sales organization for these departments was divided into zones rather than districts. The district lines of Coverite did not parallel those of the subsidiaries.

The Coverite sales organization included 350 wholly owned branch stores, 6,000 dealers selling the full Coverite line, and 100 jobbers selling mostly Paintwell, a specialty paint product. Some of the smaller branch stores were managed by a man and his wife, while the larger type often employed two or three salesmen as well as a cashier and one or more clerks. In most cities, dealers were considered adequate representation to handle the sales volume, but in some larger cities the company had one or more branches, the larger units selling between $50,000 and $70,000 annually. Sales volume fluctuated seasonally, the peak occurring in April, with the bulk of sales during the spring and summer months. The company's dealer organization was strong and was a leader in the trade sales field, but not in the automobile and industrial fields. A relatively small number of dealers accounted for a large portion of the sales volume, 80% being obtained from about 20% of the dealers. The company employed 250 field salesmen who generally traveled out of the larger branches and were supervised by the divisional sales manager.

Working directly under the vice president of sales were the following major departments: automotive sales; industrial sales, i.e., products sold to manufacturers for use in other products; railway and transportation sales; trade sales, i.e., dealer and branch business; chain sales; maintenance sales, i.e., mills, breweries, and sewage disposal; graphic arts; and government or bid sales. In addition, the heads of the Paintwell, Shine-Wax, and specialties departments reported directly to him although they worked in conjunction with some of the other department heads. The company also had a small organization at its headquarters designed to lay out local advertising. In addition, there was a man in charge of "sundry items," which were products sold by Coverite salesmen but not manufactured by the company. The manager for these items supplied "where to buy it" guides which indicated manufacturers with whom arrangements had been made for the purchase

of such items. Salesmen and branch managers who wanted items not listed in this guide had to apply to the home office for instructions.

The company classified its sales, product-wise, into six major categories: trade sales or items commonly used in the home such as house paints, wall paints, enamels, undercoaters, and porch paints; automotive goods sold directly to automobile companies for use on automobiles and also to some refinishing shops; industrial finishes, which were products sold to manufacturers for use in perfecting their products; railway and transportation products which were used in finishing vehicles apart from automobiles, such as planes and railroad cars; maintenance products which were a specialized type used in cotton mills, breweries, and so forth; and graphic arts products, which were used principally for outdoor advertising.

The Coverite Company's amazing success with Paintwell, which was a thin, quick-drying wall covering, had led the company to investigate other products related to paint. As a result, many specialty products which were not necessarily allied to paint but were usually part of the chemical industry, were developed. Paintwell had practically become a generic term because of its rapid growth, but officials had discouraged this trend because of the legal hazards. During World War II, Paintwell was distributed through the organization of a large radio manufacturer whose jobbers did not have enough products to sell during the radio shortage. The Coverite Company was now capitalizing on the Paintwell name by printing on containers of other products "manufactured by Paintwell." Some of the subsidiary companies felt that the Coverite name was sometimes emphasized too much and should be displayed no more conspicuously than their own names. Since one subsidiary had a highly enviable jobber business with many well-established business relations, the company had to be cautious about possible conflict with the intensive one-name brand policy.

Shine-Wax was originated by one of the subsidiary companies many years earlier and had received extensive radio advertising. This subsidiary when it joined the Coverite Company had offered to make this a product of all subsidiary companies, and its proposal was accepted. Shine-Wax was used on linoleum and other hard surfaces to give a glossy finish.

Any additional specialties which were added to the line would probably be made by the Coverite Company. The company did not manufacture either a wax or paint cleaner, but it had considered developing them for sale.

To help in making its decision in regard to weed killers and DDT, the company asked its advertising agency to make a survey of the market. The agency reported that most of the earlier weed killers had had a tendency to injure the soil and were rather difficult to apply effectively. The survey revealed that weed killers and DDT were sold through drug stores and some grocery store outlets as well as the usual paint outlets. Feed and seed stores also provided a good outlet for these specialty products, but company

officials were not satisfied that the grocery outlet was as favorable as the survey indicated. Furthermore, in view of the material shortage it was desirable to serve the old-established outlets as far as possible. The agency also made a survey of the uses for which weed killers were purchased, seasons in which they were purchased, and the brands asked for most frequently. The interviews were conducted in six cities and among eight different types of outlets (Exhibits 1 to 5).

Exhibit 1. For What Specific Uses Are Weed Killers Purchased?

Use	*Number of Mentions*
Crab grass	41
Dandelions	34
Weeds in general, any and all kinds	32
Poison ivy	16
Plantain	14
Devil grass	12
Poison oak	5
Poison sumac	2
Teasel	1
Thistles	1
Milkweed	1
Water grass	1
Wild morning glory	1
Honeysuckle	1
Spurge	1
Chicory	1
Burdock	1
To clear weeds from drives and terraces	1

Exhibit 2. When Do People Buy Weed Killers?

Base 100

Season	*Number*
Spring	14
Summer	27
Fall	12
Spring and summer	8
Spring and fall	8
Summer and fall	12
All year round (except winter)	19
	100

Exhibit 3. What Brand Is Asked for Most Frequently?

Base 100

Brand Most Frequently Asked For	*Number of Mentions*
A	26
B	6
C	3
D	2
E	2
F	1
G	1
H	1
I	1
Don't know or no brand mentioned	57
	100

Exhibit 4. Distribution of Interviews by Type of Retail Outlet

Retail Outlet	*Number*
Hardware store	33
Department store	17
Florist shop	17
Seed store	16
Mail-order store	9
Nursery	4
Drug store	3
Variety store	1
	100

Exhibit 5. Distribution of Interviews by Cities

Base 100

City	*Number*
Chicago	24
Los Angeles	18
Detroit	16
Cleveland	14
Philadelphia	14
St. Louis	14
	100

When the dealers were asked their reaction to the sale of the new specialty products, they indicated that the prospects were good. When the shortages lifted, the dealers thought salesmen would have all they could do to sell paint.

The sales manager in each area was asked to list all the stores in his territory and determine if the volume of sales would support a salesman to sell only the specialty products. Up to that time, the specialty products of the company, such as wax and cleaners, had been distributed through the same sales organization as the paint products, but the sales of these new products promised to be large enough to warrant a separate selling organization.

The sales managers reported that 192 of the company-owned branches would be able to support a full-time specialty merchandise salesman. It was believed that separate specialty salesmen would be more satisfactory to paint salesmen, particularly if the paint salesmen were also allowed to sell specialty products when their accounts were outlets for that type of product. The subsidiary companies had their own selling organizations, but all accounts selling specialty products were to be cleared through the parent company. A jobber which had been handled by Coverite salesmen remained a Coverite account, even though the subsidiary might come out with a new specialty product.

By using the company's branches as headquarters for the paint and specialty salesmen, company officials stated that they were virtually making jobbers out of their branches. It was believed that the work of the paint salesmen and managers was a full-time job so the executives intended to employ specialty merchandise managers, but the sales manager was still to be the highest authority in each district. This was to be carefully pointed out to all employees of the field sales organization, since the company did not want divided authority. Most territories were to have one specialty merchandise manager, but some of the larger territories would have more than one.

Company officials believed that they had an excellent, loyal dealer organization for paint sales, which they wished to maintain and strengthen. The distribution of specialty products through its own selling organization would help to increase the volume of these outlets and keep the dealer organization intact. This was important in the immediate postwar years because of the shortage of paint supplies and the resulting curtailment in sales. Some of the company's dealers had been approached during the war by competing paint manufacturers, many of whom had temporarily established themselves in the field and exploited the huge buying demand without regard to the quality of product or a permanent selling organization.

The company had appointed an "institutional manager" to carry out the distribution policy and see that the proper types and numbers of outlets were sold in each area. The objective of the company was to select a relatively small number of the best outlets and obtain a wide distribution among different types of stores. It was not the company's policy to give exclusive franchises, but it did want to make Coverite lines attractive enough for these outlets so that they could outsell competing companies' products in the same area.

In its advertising program, Coverite leaned heavily on dealer and local

newspaper advertising. The company helped pay the expenses for local advertising and obtained the advantage of local rates. The advertisements were planned, however, at the Coverite headquarters, but carried under a local dealer's name. It was no longer possible to list the names of the dealers in the advertising because such lists in most instances had become too long, but officials believed that this did not diminish the value of the advertising. Since packaging of the products was very important in promoting sales, careful attention had been devoted to this as well as to displaying the specialties. Attractive counter display cartons (with 24 packages to a carton) had been developed, and officials intended to keep stores well stocked with them. Each specialty carton contained a point-of-sale advertising feature so that dealers were induced to give further display. As far as possible, the company intended to hold jobber meetings to convince their salesmen so that they would work with retailers in getting counter and window display units, display cartons, and demonstrations in the stores used effectively. Coverite had in some cases helped to defray the costs of a full-time demonstrator who was given a thorough training course. This service could be continued if orders remained at a specified amount.

Although the subsidiaries distributed their products under their own brand name and through their own sales organization, the specialty products would be marked "manufactured by Coverite and sold by (name of subsidiary)." It was felt desirable to have the name of the manufacturer appear on the weed killer and DDT specialties because so many of these products had been distributed by unreliable concerns. It was believed that Coverite would profit by its brand name. Furthermore, in the case of insecticides, the law required that a manufacturer's name be shown on the container.

In order to use the weed killer effectively, it was necessary to have a sprayer. One of the problems of institutional managers was to determine whether Coverite should distribute this sprayer and, if so, in what manner it would be done. The company could approve a source for the purchase of sprayers for its own stores, but it would be more difficult to determine the proper means of distributing to the dealers.

Coverite officials were extremely enthusiastic about the prospects of large department stores as outlets for specialty products and were seeking these accounts vigorously. The department store was often a leader in the community and was very successful in introducing new products. The majority of leading department stores handled Coverite products because the company had a national sales organization.

All sales to chain store accounts were managed by one individual in the company who assumed full responsibility for these sales. The chains were carefully selected so that Coverite sold only through the most reputable. Coverite defined "chain" as: "any group of retail outlets which extended outside a metropolitan trading area either statewide or interstate." A series

of retail stores owned by one company and located within one metropolis were not chains according to the Coverite definition. Most of these chains had buying headquarters in one location and depended upon the manufacturer of a product to assist the stores in merchandising the product. Coverite would not give jobber discounts to chains unless they were actually jobbers, that is, unless they resold to other retailers. It was felt that Coverite had cultivated good relations with the chain stores directly through the company's branch managers. It was the immediate friendly contacts with the store officials of chains that made this operate effectively. The chain managers could always obtain the assistance of the sales representatives of Coverite. The salesmen in the territory where the chain stores were located were credited with the sales although the actual sales agreement was contracted at the Coverite Company headquarters. Since the salesmen received commissions on these sales, they cooperated in promoting Coverite products with chain store officials.

In 1946, the institutional manager of Coverite was faced with three principal problems:

Should Coverite distribute the new insecticide and weed killer through grocery stores?

Should Coverite have separate salesmen for the distribution of specialty products?

Will a separate specialty sales organization work effectively in coordination with an already established paint organization?

CASES IN BRIEF

1. An editorial in *The Wall Street Journal* during July, 1954, dealt with what is often called scrambled distribution:

> A good many druggists, we see by the papers, are getting unhappy over the grocers. The super-market sales of shaving cream, toothpaste, cold cream, baby oil, aspirin and the like are on the climb.
>
> Just last week a survey by the A. C. Nielsen Company, marketing research organization, reported that food stores now account for about forty-five percent of all sales of "drug" items of this sort. In 1951 food stores sold only thirty-six percent of these items and ten years earlier their amount of this kind of business was negligible. So the druggists consider their "chief problem . . . is how to regain their traditional role in the sale of these products."
>
> We sympathize with the druggists' lament but we are not at all worried about their ability to lick a problem like this.
>
> After yesterday's luncheon at the restaurant counter of the corner pharmacy, we browsed through its book department while listening to the music being sampled by customers from its full record supply. Then we carefully threaded our way through the toy and household utensil section back to the electrical department where we filled an order from home for some light bulbs and an extension cord. Having dutifully bought these, we felt justified in buying three golf balls for ourselves. We exited briskly without pausing.

We are not quite sure just what is the "traditional role" of the druggists, but we are quite confident that if they don't exactly regain that role they will find another by just moving the prescription desk a little further back in the corner.

Discuss the effects of "scrambled distribution" upon retailers, wholesalers, and manufacturers.

2. The General Motors Company, during hearings relating to the relationships between that company and dealers, announced through its president that it had decided to extend all its contracts to 1960, thus making all contracts five years instead of the customary one-year contract. Publicly, it was stated that the dealer contracts have actually been long-term arrangements with dealers but only the dealers themselves had been aware of it. Mr. Curtice stated: "I felt impelled to do what I have not considered necessary heretofore, namely, to formalize a continuing long line relationship with our dealers which for all practical purposes has been in effect in General Motors for many years."

Why adopt such a plan? Should other automobile companies go to five-year contracts?

3. The National Automobile Dealers Association announced that it would push a plan to give new car dealers exclusive sales territories. It was asserted that the group had decided to go ahead with the legislative drive of the Congressional bill permitting the "territorial security" clauses in contracts between automobile manufacturers and their franchised dealers. Such legislation was said to be essential, and any dealer who enlisted customers from outside his district would be penalized. In addition, the association announced it would press again for anti-bootlegging legislation. This bill had passed the House of Representatives but not the Senate in a previous session. In a poll by the association, it appeared that a majority of 55% of those voting favored the adoption of some such legislation.

Are exclusive sales territories in the interest of the dealers themselves? In the interest of the public?

4. In December, 1955, American Motors Corporation announced an eight-point program to "strengthen its partnership relations" with dealers. Main features of the program include establishment of joint company-dealer "appeals boards" with final authority in dealer cancellation cases; dealer-elected councils to review relationships with the factory on matters such as length of franchise; production scheduling primarily based on dealer sales projections to prevent "bootlegging" and inventory accumulations, and continued consideration of programs such as dealer volume investment fund, which this year provided bonuses to dealers when company sales passed certain specified points.

Other points include concerted action by the factory and dealers to prevent unethical sales practices and study of methods to prevent "excessive fluctuations in car sales and production volumes, and to maintain these volumes at levels profitable to both the dealers and the company."

The company said some dealer councils had already been set up and that other points in the program were being worked out.

Was this program designed to secure the types of cooperation by dealers needed to improve American's industry position?

5. A prominent manufacturer of popular-price home and automobile radio receiving sets secured his distribution through approximately 100 exclusive distributors and 20,000 nonexclusive retail outlets. Most retail dealers sold radio lines of a number of well-known competitors. The question arose as to whether the company should continue the present distribution policy or adopt a selected dealer distribution in which a limited number of dealers in each community would be given franchises and special consideration and help. By following a nonexclusive dealer policy, the company was placing many dealers in direct competition with each other. Although the

company had been successful in preventing dealers from cutting prices below the established levels, actually they were accomplishing the same result by offering large allowances on trade-in sets. The use of the trade-in, particularly by smaller dealers, often proved instrumental in effecting a sale, but abuse of the practice by a number of small dealers had frequently prevented larger dealers, less willing to cut margins below a reasonable level, from making an adequate profit. Accordingly, in the city of Chicago, the company proposed to experiment by reducing the number of retail outlets from 350 to 100 selective, semiexclusive accounts. It was asserted that franchises would thus become more valuble immediately and cause dealers to exert greater willingness to promote the line through an extensive use of displays and campaigns. The distribution would also be placed in the hands of larger known dealers and removed from the weaker smaller outlets. Others contended that the proposed test might seriously jeopardize the company's competitive position within the test city since it was difficult to forecast the probable effect on sales volume.

What should be done?

6. The Purdy Company, located in St. Louis, manufactured a line of medium-price men's suits, topcoats, overcoats, and sportswear, which was sold through 50 Purdy-controlled retail establishments and independent retail stores in selected cities throughout the country. In 1946, officers of the company, anticipating the end of the wartime era of allocation of merchandise and the beginning of a period when successful operation would be directly related to skillful merchandising, were considering possible changes and improvements in selling methods.

The sales organization consisted of a vice president and director of sales, a market research manager, a manager of advertising and public relations, and 40 senior and junior salesmen. As part of its program of building for the future, the company conducted a survey of its retail outlets, and because its salesforce was composed of high-caliber men with many years of specialized wholesale and retail experience, the vice president in charge of sales believed they were better qualified to conduct the survey desired than anyone else.

The information to be gathered was to be furnished on three forms: the first a report which required the salesman to put in writing a considerable amount of information about the town and its clothing stores and departments, together with a description of the Purdy retailer's business, the names and addresses of the executives, and the salesmen. The second form was for the purpose of recording an interview with the owner or manager regarding his ideas as to what was likely to happen after the war with respect to the clothing business and what he expected to do with clothing and other lines of men's furnishings in which branded goods were prominent. The third form asked some 20 or 30 questions concerning advertising and sales promotion and other problem areas

Is this effort to get information likely to lead to better relationships with retailers?

7. A farm implement company making mowing machines, drills, harrows, plows, etc., has received an offer from a mail-order house to purchase its products and to feature them in its catalogues. The farm implement company, although a small one, had a reputation for the quality of its product which had been maintained by charging somewhat higher prices than those charged by principal competitors. As part of the contract, prices would be low, although not profitless, and shipments would be made from the factory to the consumer.

What problems would the farm implement company be likely to encounter if it accepted the offer of the contract?

8. When should a manufacturer adopt an exclusive agency policy? If the exclusive dealer policy is adopted, should formal contracts with dealers be used? In what cases are limited or selected agencies better than exclusive agencies?

9. A spice company sold 95% of its output to independent retailers. *Should it accept from a chain store a contract for an amount equal to 20% of its total annual sales?* The prices offered were considerably lower than those at which the product was sold to independents, but the company figured it would make a substantial profit on the annual business.

10. Which of the following five types is able to distribute food products to the consumer at the lowest cost: mail-order houses, department stores, private chains, voluntary chains, or independents?

11. What instructions should be given to the salesman of a shoe company to guide him in the selection of exclusive agencies in towns in which the company is not already represented?

12. A manufacturer of certain hardware items recently announced that it would cease selling to chain stores and mail-order houses and confine its sales to independent merchants. In the statement announcing the change, the company said it believed itself to be acting in accordance with social interests.

What are these social interests? Is the decision of such a manufacturer wise? Outline the conditions under which such a decision might be wise or unwise

13. How may the manufacturer, who establishes retail stores to use as service and laboratory stations to cooperate with dealers, convince independent dealers who constitute his chief market that his intentions are not to displace them by selling direct to the public?

D. DIRECT-TO-USER DISTRIBUTION

Three forms of sale direct to consumer may be distinguished: (1) sales through stores owned and operated by the manufacturer or a controlled subsidiary, (2) sales to users or consumers through a salesforce, and (3) mail-order selling.

For manufacturers having wide distribution of goods which are used by large numbers of persons or businesses, direct-to-user distribution involves a relatively much larger task than selling directly to retailers. In the case of consumer goods, house-to-house canvassing has been utilized with success in some exceptional cases. Distribution in this way requires an extremely large organization; the costs of maintaining the sales organization are constantly mounting, and the effectiveness is being decreased by a growing public resentment at the practices and policies of house-to-house canvassers. The primary advantage of direct-to-consumer distribution for consumer products is that the contraction of the marketing process brings the consumer much nearer to the manufacturer and renders it much more likely that the manufacturer will keep a firm hold upon the consumer market. No middleman intervenes to weaken the effects of advertising or other sales effort; concentration of effort and aggressive salesmanship become possible. Nevertheless, house-to-house selling is to be regarded primarily as an exceptional policy, successful application of which is becoming more unlikely. Direct-to-user distribution of consumer products through owned stores or agencies—in the case of automobiles, expensive electrical appliances, shoes, and other products—does not show so checkered a history, but the manufacturer who attempts to follow such a course must anticipate the assumption of all the

problems and risks of retail business, with some advantages and certain disadvantages which characterize trading companies.

The lack of clarity in the definition of wholesaler and retailer becomes evident as one enters the field of industrial equipment or supplies. As remarked above, companies selling only to a limited class of users goods which need special salesmanship and demonstration frequently sell direct to the consumer. Manufacturers of textile machinery sell through their own sales representatives or branches; road machinery companies sell their products directly to users; manufacturers of tractors and farm machinery sell through their own branch houses directly to consumers in the corn belt; makers of bakery or confectionery machinery sell directly. Yet one finds that manufacturers of some finished textiles will sell through brokers to finishers; that machinery of more general types will be sold by dealers; that manufacturers of more specialized machinery will utilize independent agents to reach territories in which they do not wish to maintain their own forces.

23. PATENTED PRODUCTS COMPANY (B).[1] Selling Same Product Directly and through Distributors

Division A of the Patented Products Company, up to 1936, had distributed its products exclusively through its own salesforce. At that time, in an effort to reach small accounts more economically and to obtain broader distribution of its products, the company started using distributors, with the result that by 1951 it sold to 125 distributors who accounted for approximately 10% of the division's volume. In the spring of that year, executives of the division were studying the company's distributor program because distributors sold to all classes of buyers while the company preferred to service major accounts on a direct basis. Since distributors were not limited in area, territory, or account, not all major accounts were serviced by the company on a direct basis. It was suggested, therefore, the entire distributor program be reviewed.

Early in 1951, distributors' orders had been increasing at a rate far exceeding that of the company's direct business; for instance in 1950, total dollar sales volume had increased 50% over 1949 but for the same period, distributors' orders had doubled in an effort to develop inventories. In the case of loose lock-washers, such orders had increased at an even higher rate. In view of the impending period of materials shortages, executives of the fastener division wondered if the company might jeopardize its ability to supply its direct customers if it supplied all requirements of distributors.

The products of Division A fell into two general categories: screw products and stamped products. The screw products were screw-washer assemblies and thread-cutting screws, while the stamped products consisted primarily of patented fastenings and loose lock-washers. Distributors were principally in-

[1] See Patented Products Company (A) for introduction and background, p. 19.

terested in the loose lock-washers and screw products selling approximately 30% of the output of the former item. The other stamped products were sold primarily by the company's salesforce, although distributors could also accept orders.

In early 1951, 85% of the company's screw products was sold principally to the large accounts. These customers used the products directly in their assembly lines and generally had very little inventory in stock, depending upon a continuous flow of products from Division A. Since distributors bought in anticipation of orders and thus became inventory centers, some executives felt it would not be fair to sell them all they wanted and thereby create stocks in the field when the company was unable to maintain an inventory at the plant. On the other hand, executives believed that a distributor plan was necessary since it offered the best method of handling small volume accounts as well as offering better customer service from local stocks.

Executives placed the company's distributors in three general categories: automotive, aircraft parts, and industrial. The latter, in turn, all of whom sold to the same accounts as the company's salesforce, were broken down into three types: the familiar mill supply house, the limited line supply house,[2] and the fastening specialty house which dealt only in fastenings, nuts, and bolts. This last group, a new type of distributor whose appearance was first noticed shortly prior to World War II and which gained such volume during and after the war that it had become the major wholesale outlet for standard fastenings, was therefore the most important for the fastener division.

The automotive distributor bought in bulk and frequently repackaged and sold under his own label, selling primarily to the replacement trade. Such a distributor sold to car dealers or parts jobbers. The aircraft parts distributors sold to manufacturers of aircraft and their replacement trade. Although the company had not used hardware wholesalers as distributors, executives recognized that they could also be considered potential distributor outlets.

The company selected its distributors carefully but placed no restrictions upon them nor made any written agreements with them, with the result that they were able to sell to whomever they chose.

The company's price structure was such that the distributor could compete pricewise with the company's direct sales effort. In addition, the distributors followed the common trade practice of granting a 2% cash discount to customers, usually quoting "2%, 10th prox." on all lines. The company, on the other hand, quoted to the trade "½%, 10th, 25th" on screw products and "net 30" on stampings. Thus, by passing on this 2% cash discount, distributors were at times able to undersell the company.

In view of the ever-growing influx of orders, the company was faced with a considerable backlog by the second quarter of 1951. In order to act fairly,

[2] A wholesaler having 20 lines at the most.

it was suggested that the company place 20 of the leading lock-washer distributors on allocation based on average monthly shipments during 1948 and 1949, increased by a percentage factor to adjust for increased total company shipments during the year 1950. On products other than lock-washers, it was suggested that distributors be placed on the normal order list and wait their turn. In January, 1951, deliveries on some products were delayed as much as 6 months. The company did not wish to antagonize its distributors, inasmuch as it was recognized that they constituted an important segment of the company's distribution structure. Manufacturing plans called for an increase in capacity which would handle all possible demands.

Company policy encouraged distributors to handle all customers who had an annual volume of less than $1,000. Accordingly, the company was suggesting to all small volume customers that they buy from a distributor, informing them of his location and, in turn, advising the distributor of the customer in question.

24. WARSAW COMPANY. Operation of Laboratory Retail Stores by Manufacturer

The Warsaw Company, with an annual sales volume of approximately $11,000,000, was one of the large manufacturers of canvas and rubber footwear. A salesforce of 170 men, paid a drawing account against commissions, sold the company line direct to independent and chain retail stores throughout the country. Independent outlets provided approximately 75% of the Warsaw sales volume, while 12 large chain organizations and several private brand distributors accounted for the remainder. The salesmen traveled out of 15 branch offices, each of which functioned independently in carrying stocks, keeping accounts and sales records, and controlling the salesforce. In March, 1936, the company purchased a shoe store in Utica, New York, for the purpose of obtaining market information under conditions of actual retail operation. Subsequently, in November, 1937, a second store was opened in Fitchburg, Massachusetts, and in April, 1938, a third store was purchased in Dover, New Hampshire. In the fall of 1938, the sales manager was considering the extent to which the company should go in acquiring and operating retail stores for laboratory purposes.

Owing to the highly competitive conditions in the footwear industry, independent retailers had been experiencing difficulty in operating at a satisfactory profit. Although they attempted to keep pace with the aggressive merchandising policies employed by the chain shoe stores, nevertheless many dealers were unsuccessful, either because they lacked the required imagination and ability or because they lacked the advantages afforded by the centralized guidance of a chain organization. The operation of the several stores for experimental purposes was undertaken in order to bring about better understanding of the merchandising problems of the independent retailer and thus to find a sound basis for helping him solve them. The sales depart-

ment planned to use the stores to test display material, obtain new merchandising ideas, and study dealer and consumer reactions.

So as to make the stores appear actually to be independent outlets, the sales manager decided not to permit the company name to be associated with the establishments in any form. Even the individual store managers themselves were not informed of the relationship existing between the company and these outlets. The general manager of the stores, who was on the company payroll and reported direct to the sales manager, was represented as being sole owner of the stores. He maintained full responsibility for establishing the complete line to be carried in each store, although after express approval the local managers had authority to supplement the line with merchandise designed to meet special local conditions. Sales of Warsaw merchandise constituted from 5% to 7% of the volume of each store, the balance being made up in sales of leather shoes and women's hosiery.

The Utica store was selected because it was considered average in physical size and sales volume for an independent outlet and was located in what the company considered a representative city. The store's business was obtained not only from residents of the city itself, but also from people living in small, nearby towns. The Fitchburg location was chosen because it was regarded as an active trading center and was the scene of strong chain store competition, and the Dover store because it was located in what the company believed to be a typical market for heavy footwear sales. Both the Utica and Dover stores, which required an investment of $10,000 and $6,000, respectively, had been in operation for some time before they were purchased by the Warsaw Company. The Fitchburg store, however, was newly opened by the company and involved an investment of $10,000.

In a number of instances, the company had found its stores useful as a testing ground for merchandising ideas. For example, it was found on one occasion that a window display featuring a tennis shoe soaking in a bowl of water, together with the explanation that tennis shoes could be easily cleaned by washing, proved very successful. This window display was then introduced to Warsaw dealers throughout the country, and a majority of them reported that the plan had been instrumental in increasing sales volume. This same theme was adopted by the company in its advertising program for the year. On another occasion the Warsaw sales department developed the idea that three pairs of women's sport sandals, normally selling at $1.75 a pair, could be sold at the same time if packaged in an overnight or shoe bag for $5. The idea was believed to be worth while until tested in company stores, where it was found to possess little sales value. If the company had not had available its own stores for testing purposes, the sales manager stated that this plan would have been presented to the trade at considerable expense before being found unsatisfactory. On numerous other occasions the sales manager reported that the experiences and observations of the general

manager of the three stores were invaluable in the formulation of effective merchandising plans.

In November, 1938, the sales manager was considering what future action should be taken in regard to the operation of company-owned stores for testing purposes. At that time, each of the three stores was operating at a small loss, but this was believed a result of the business recession which began in August, 1937, and it was anticipated that operations would be on a profitable basis during 1939. The sales manager was interested not so much in the profitability of each store, however, as he was in obtaining valuable market information which would prove useful in the formulation of merchandising policies. There remained a question in his mind whether several additional stores should be purchased. Several members of the sales department believed that, while the addition of a few more stores would offer some advantages, nevertheless the move would not be warranted. These men believed that adequate information could be secured on the basis of present operations without incurring a greater investment. Another member of the department suggested that several additional stores might well be obtained so that the company could test merchandising plans on a broader basis with greater assurance that the sample was representative and adequate.

CASES IN BRIEF

1. A large appliance manufacturer found that it was being increasingly compelled to provide facilities for giving product service to retail consumers whether the appliances were sold through distributors to retailers or directly to retailers and then to consumers.

If such facilities were extended to cover a large portion of the domestic market, what further steps would be necessary to provide for complete direct distribution to the consumer? Was such action likely?

Was there a logical division between the functions of retailers and those of manufacturers?

Was it probable that manufacturers of durable consumer goods would undertake fully integrated distribution of their products? If so, under what conditions?

2. The Kiley Company, which manufactured medium- and high-grade haberdashery, sold its products to retailers through a field force of 90 men. For many years, the majority of the outlets had been in small- and medium-size towns. The company had been reluctant to grant price concessions and advertising allowances necessary to secure any substantial portion of the urban market. With the shift in consumer buying from towns to larger cities and with the increase of chain stores, the company outlets were becoming less desirable and it realized the necessity of shifting its distribution toward the larger centers. It therefore set up 28 company-owned retail outlets under the direction of a successful chain store operator. These stores were conducted under individual names, and their connection with the Kiley Company was not generally known. Since these stores were competing with local and suburban dealers handling the Kiley lines, considerable care was taken not to give them preferential treatment, and they were restricted from selling merchandise at prices lower than those usually charged by dealers and from holding sales out of season.

Several years later the names of the owned stores were changed to Kiley Com-

pany Stores, Incorporated, in order to associate the retail stores with general promotional work and advertising of the company. Following this step, many of the city dealers closed out the Kiley lines and others refrained from giving the company aggressive cooperation. The operating results of the Kiley stores were unsatisfactory, chiefly because of inadequate sales volume.

Should the company discontinue operation of its chain of company-owned retail stores?

3. Should a company manufacturing blower and ventilating equipment sell to the consumer, through direct mail, a new vacuum cleaner which it has been developing? It is proposed that the price be fixed at $39.75 as compared with similar cleaners selling from $20 to $40 more, and even up to $89.95.

4. What types of products are particularly adapted to house-to-house canvassing? Are such products adapted indefinitely for such distribution or only temporarily? Under what conditions may the same goods be sold in the same city both by house-to-house canvassers and by retailers? What is the basis of license and other legal restrictions placed on house-to-house canvassing? Are such restrictions economically sound?

5. A company manufacturing and selling automatic coffee vending machines and supplies inserted the following advertisement in a series of newspapers:

> UNLIMITED BUSINESS OPPORTUNITY $1390. to $6950. CASH REQUIRED (SECURED BY INVENTORY): Wanted, a financially responsible man or woman to supervise a business of NEW AUTOMATIC COFFEE VENDORS, in New York and surrounding territory. Drop in a coin and out comes a steaming hot cup of coffee, sugar and cream if desired. Each cup made individually. Installed in large business establishments, manufacturing plants, etc. Earning power unlimited. Can be operated in your spare time. Substantial daily earnings to start, with rapid increase, depending on number of units you are capable of handling. All locations secured for you. If you can follow instructions and supervision of a large well-rated national company, you should become financially independent within a very short time. *Please do not answer this advertisement unless you have the required amount of cash available and are a person who can make and give a definite decision after you know the facts!! We are only interested in people who can start immediately. Write fully about yourself.*

What should the person with limited funds who wished to go into his own business consider in thinking about this proposal?

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4. *Pricing and Terms of Sale*

Every enterprise engaged in selling encounters a series of difficult problems relating to the price at which its product is to be sold. Since profit or loss is determined by the relation of selling price to cost, the importance of correct pricing and terms of sale cannot be overestimated. From the broader economic point of view likewise, pricing is a subject of great importance. Price determines in large measure the distribution of commodities, the shifting of goods from places in which surpluses exist to those in which there are shortages.

To secure the free interplay of forces which influence price is the objective of much governmental regulation designed to prevent or eliminate monopolistic controls. Yet it must be recognized that "perfect" competition is an ideal rather than a feasible goal for present-day society. The businessman endeavors to get a price which will yield him a profit. He may widen that profit margin by raising prices or lowering costs or both. The pressure of intra- or inter-industry competition, both short-run and long-run, is likely to place upper limits on price. This exerts a desirable influence upon the business executive to lower costs in order to increase profit. But it is a well-known business fact that most transactions—e.g., purchases and sales—take place between parties who have had previous purchase and sales relationships. In other words, repeat sales predominate. The cost of initial sales is high, so high that competitive prices in many industries do not bear any close relation to costs of initiating business relationships. To solidify these relationships, to create good will so that repeat sales may be made at smaller cost is the objective of every manufacturer. And, in various ways sellers endeavor to merit continued patronage, so that to a limited extent even adverse differences in price do not break up the relationship.

The problems of many manufacturers in pricing are further complicated by lack of knowledge as to what the real market price is, as well as by lack of accurate knowledge of costs of products and of necessary market operations. Approximations are sometimes available when current quotations are not; but it is all too well known that the printed quotations in price lists or trade papers are merely starting points for special prices which may reflect the market more accurately than printed prices.

Government influences on price through legislation, administrative regula-

tion, and judicial decision have in the postwar period tended to add both to the number and type of restrictions upon pricing freedom and to the uncertainty and confusion of executives who are endeavoring to adopt wise pricing policies. The sales manager must recognize that the trends toward price regulation, particularly evident in the prewar period, have been accelerated by wartime experience and postwar conditions, so that today it is not only the occasional type of business or the dominating company which must be seriously concerned with the legal aspects of price. In fact, the major change in the area of pricing decisions during the past two decades would appear to be the growing importance of legal restrictions. The decisions in the Corn Products, Cement, Salt, and Conduit cases, among others, tended to create such confusion and to promise such undesirable effects that Congress was compelled to pass legislation permitting certain practices which through the decisions had become illegal.

A. PRICE LEVELS; UNIFORMITY OF PRICES; PRICE MAINTENANCE

The manufacturer who must sell his goods in order to make a profit to keep his factory or trade enterprise in operation finds that an important problem which soon confronts him is that of pricing his product. Depending upon the type of product he makes and the market in which he sells, three choices are open to him. He may sell his goods at the market price or at what passes currently for the market price; he may sell at prices which are above the market, in which case he must provide means for influencing buyers to pay higher prices either through superior product or through creating an impression that his product or service is superior; he may sell at less than market price, which is unusual except for brief periods. A manufacturer or trading company may sell at a lower-than-market price as a means of influencing buyers to purchase, with the expectation of raising prices to market levels or higher after buyers have become acquainted with both the commodity and the seller. The sounder, and more unusual, aspect of the below-market price policy is that of selling goods regularly at lower-than-market prices where such reductions are warranted by lower costs through superior efficiency of production and management.

For present purposes, the problems of price setting during a war period have not been included. The study of war experience would be useful and many data on pricing policies and practices were collected which should be subjected to critical analysis. However, the problems which the sales manager must solve today and in the next few years are likely to have much more in common with those of the seven years preceding our entrance into World War II than with the five years after 1941.

The problems of prices are not confined to the initial stages of a business. The sales manager must be continuously on the alert to see that his prices are not out of line with those of competitors, particularly in periods of declining price levels. Many a sales manager has found his trade slipping away from him because he had not taken proper care to see that changes were made in his prices to correspond to changes required by market conditions. In a period of rising prices, a sales manager will have to choose between taking advantage of changes with higher prices or of sharing such advantages with buyers to create good will.

Uniformity of Prices. Closely connected with problems of price levels are problems relating to uniformity of selling prices. The use of uniform prices enforced without variation is a comparatively recent development. The old policy was that of getting as high a price as possible for goods sold, sometimes taking account of future relations, sometimes not. Each sale was the result of bargaining, and the prices at which goods were sold were the net results of the shrewdness of the buyer and the sales ability of the seller. It developed, therefore, that, when sales were made to several merchants in a city, one might be paying considerably more for his goods than another. Whenever this was discovered, there was a complaint and sometimes friction and loss of good will. Salesmen were permitted, and are still permitted, by many wholesale companies to make variations of prices within limits. Weaker salesmen tend to make most of their sales at the lowest prices permitted. Few enterprises have been willing to discontinue the practice, although some of its evils are recognized; the pressure of competition, the desire of the buyer to get concessions, and ignorance of market conditions are in part responsible for its survival. It is also true that the net result of many discount policies with reference to chains and jobbers is to bring about a lack of uniformity in prices. There are other cases where the multiprice policy seems to have some justification. There are some companies which consciously adopt a higher price level for certain classes of trade, partly because such trade demands a bargaining level from which reductions may be made and partly because a credit risk or other cost is involved which is disproportionately large. In the retail field, the practice of varying prices between customers has been eliminated by all the better and larger stores.

Related to uniformity of prices is the whole subject of discriminatory pricing which has come in for much legal attention, especially since passage of the Robinson-Patman Act. Postwar legal pronouncements relating to the basing-point system, designed to achieve geographical uniformities and decisions adverse to discriminatory discounts, are taken up below. In general, departures from uniformity of prices for identical products to similar classes of customers in comparable quantities are legally frowned upon.

Resale Price Maintenance. Price maintenance is a market policy adopted

by some manufacturers of imposing restrictions upon the price at which an article identified by trade-mark, copyright, brand, or patent may be resold to a purchaser. Price maintenance refers solely to identified goods. The policy does not affect the great bulk of commodities entering into commerce, nor do manufacturers generally follow the practice.

Arguments for maintaining prices need to be examined from the point of view of the consumer, the retailer, the wholesaler, and the manufacturer.

1. From the point of view of the consumer, price maintenance is declared to be justified because it keeps goods conveniently in the stocks of local dealers and protects the public from excessive retail prices. It is stated that, where prices are not maintained, many dealers are inclined to eliminate such items from their stocks so that customers are unable to procure them. Price maintenance is said also to influence maintenance of quality, because the manufacturer is relieved of the pressure of price cutting to lower the quality of his goods.
2. The retailer, particularly the independent retailer, is protected from the price cutting and competition usually connected with newer types of retail organizations, such as chain stores, "pine boards," super markets, and department stores. He believes he is thus assured of a suitable market for the identified goods he sells at prices which yield him a profit.
3. From the viewpoint of the wholesaler, price maintenance is a relief from the pressure to cut his margins to an unprofitable point. Many wholesalers have found it necessary to quote prices to independent retailers which are much lower than the prices which give them the customary margins. Because the welfare of the wholesaler is tied up with the welfare of the independent retailer, the wholesaler is inclined to favor those policies which promise maintenance of the independent.

But the arguments against price maintenance are also plausible. The manufacturer must sell his goods under the implied guaranty whether the prices are cut or not; it is identification of the product which places responsibility on the manufacturer and protects the consumer, not the maintained price. The retailer is not protected from competition by price maintenance but only from one form of competition. If competition does not take the place or form of price reduction, it may well take the form of greater advertising or more sales effort, so that the net result is not protection for the retailer but an increase of cost to the retailer and to the public.

In the past, the policy of price maintenance has received a decided impetus from its legalization in 44 states and the passage of the Federal complement by Congress first entitled the Miller-Tydings Act and later, after an adverse decision in the Schwegeman case, the McGuire Act. The state laws follow closely a single pattern typified by the California Fair Trade Act, as quoted below:

An act to protect trade-mark owners, distributors and the public against injurious and uneconomic practices in the distribution of articles of standard quality under a distinguished trade-mark, brand or name.

The people of the State of California do enact as follows:

Section 1. No contract relating to the sale or resale of a commodity which bears, or the label or content of which bears, the trade-mark, brand, or name of the producer or owner of such commodity, and which is in fair and open competition with commodities of the same general class produced by others shall be deemed in violation of any law of the State of California by reason of any of the following provisions which may be contained in such contract:

1. That the buyer will not resell such commodity except at the price stipulated by the vendor.

2. That the vendee or producer require in delivery to whom he may resell such commodity to agree that he will not, in turn, resell except at the price stipulated by such vendor or by such vendee.

Such provisions in any contract shall be deemed to contain or imply conditions that such commodity may be resold without reference to such agreement in the following cases:

1. In closing out the owners' stock for the purpose of discontinuing delivering any such commodity.

2. When the goods are damaged or deteriorated in quality, and notice is given to the public thereof.

3. By any officer acting under the orders of any court.

25. BYRON-ADAMS COMPANY. Pricing a New Product

In the summer of 1940, executives of the Byron-Adams Company, which was engaged in the manufacture of industrial and commercial lighting equipment and porcelain steel sanitary ware, were disturbed by the fact that competitors were quoting prices on fluorescent lighting fixtures which were often below the Byron-Adams Company's cost of production.

The main offices and plant of the company were located in a suburb of Los Angeles, and branch offices with factory stocks were maintained in San Francisco and Houston, Texas. The bulk of the company's business came from the Pacific Coast area although sales offices were located in New York, Chicago, and Houston as well as in San Francisco and Los Angeles. Approximately 45% of the company's sales volume came from its line of industrial and commercial lighting equipment while the remaining 55% came from sanitary ware and specialty products.

In 1937 and 1938, a series of technical developments contributed greatly to the advancement of fluorescent lighting, and by 1940 fluorescent units were rapidly replacing incandescent fixtures for industrial and commercial lighting purposes. In response to this widespread and growing consumer demand, the Byron-Adams Company began to manufacture fluorescent units in January, 1940. The fluorescent lighting fixtures consisted of a porcelain-

covered metal reflector and a number of attaching electrical parts known as "ballast." The Byron-Adams Company fabricated the metal reflectors in its metalworking department, applied the porcelain coating to them in its enameling department, purchased the attaching electrical parts from electrical manufacturers, and assembled the finished units. The electrical parts purchased amounted to about 75% of the total direct cost of the fixtures.

Although the Byron-Adams Company's sales of fluorescent equipment increased substantially during the first seven months of 1940, the company executives were fairly certain by August that their sales were not keeping pace with the rapid growth of the fluorescent industry. They attributed their failure to secure a larger share of the market to the price-cutting tactics of a large number of small manufacturers who had sprung into existence in response to the expanding consumer demand. Potentially, almost all small tin- or metalworking shops were in a position to manufacture fluorescent fixtures because they could fabricate the metal reflectors, send them to job enamelers for the porcelain covering, purchase the necessary electrical parts, and assemble the finished fixtures. The Byron-Adams executives believed that small producers of this type were able to flood the market with low-price units because they usually had a low overhead, did not calculate their costs accurately, and paid little attention to the technical design of their products.

The Byron-Adams Company felt the competition of the small producers most keenly in the commercial lighting field where the requirements for engineering skill in the design and sale of the product were at a minimum. Even in the industrial market, however, the company was often confronted with selling prices which were approximately as low as its cost of production.

For a number of years the Byron-Adams executives had calculated the cost of production of their incandescent units by adding a standard percentage for overhead to the cost of materials and labor. For example, the production cost of a typical incandescent unit was figured as follows:

Labor	$1.75
Materials	1.25
Total direct cost	$3.00
Overhead (50% of direct cost)	1.50
Total cost of production	$4.50

Over a period of time, the overhead charge of 50% of the direct cost had been established as an average figure to be used in computing the cost of all Byron-Adams products.

When fluorescent units were added to the company's line in 1940, the executives followed much the same procedure in calculating production costs with the exception that the purchase parts were included as part of the direct cost. The production cost of a typical fluorescent unit was calculated as follows:

Labor	$ 2.00
Materials	1.50
Purchase parts	10.00
Total direct cost	$13.50
Overhead (50% of direct cost)	6.25
Total cost of production	$19.75

The Byron-Adams executives felt that the problem of meeting price competition in the fluorescent market was exceedingly important because they believed that in the future fluorescent units would almost completely displace incandescent fixtures for commercial and industrial lighting purposes.

What action should the Byron-Adams executives have taken to meet the price competition of the small manufacturers?

26. ARMOR SCREW MACHINE PRODUCTS COMPANY

In the fall of 1950, the Armor Screw Machine Products Company received an inquiry from a customer for 10,000 spacers. Mr. Raymond Armor, the proprietor and general manager of the 35-employee concern, handled customer contacts and determined and quoted prices on products.

In discussing the spacer order, the customer displayed a tentative sketch of a new gear assembly in the design state, showing a spacer in relation to other component parts. Each spacer was to be a cylinder 5/8" diameter, 1/4" long, and could be made out of brass or steel, solid or with a 3/8" clearance hole, whichever was cheaper.

Mr. Armor's plant was equipped with automatic screw machines and it appeared to him that Brown and Sharpe Automatic Screw Machine No. 0 would be suitable for the job of producing the spacers. Upon analysis he determined that he had six methods from which to choose to fill this order.

1. 5/8" diameter cold-drawn steel rod and drill no hole.
2. 5/8" diameter brass rod and drill no hole.
3. 5/8" diameter cold-drawn steel rod and drill a 3/8" diameter hole.
4. 5/8" diameter brass rod and drill a 3/8" diameter hole.
5. 5/8" outside diameter steel tubing (with a .385" diameter hole).
6. 5/8" outside diameter brass tubing (with a 3/8" diameter hole).

Exhibit 1 is a summary of alternative costs and prices as figured by Mr. Armor and included estimated items such as material costs, setup charges, and machine charges. No figures were included for overhead, which ordinarily was estimated at 100% of labor and material or 150% of direct labor. Prices were figured on a per M basis for a run of 10,000 spacers. The setup time for machines was estimated at 2 hours for solid stock and 2½ hours where a hole was to be drilled.

Exhibit 1. ARMOR SCREW MACHINE PRODUCTS COMPANY. Summary of Costs per Thousand (in Lots of 10,000)

	Steel			Brass		
	No hole	Drilled hole	Tubing	No hole	Drilled hole	Tubing
Material	1.76	1.76	4.77	5.80	4.96	6.65
Setup ($3.00)	0.60	0.75	0.60	0 60	0 75	0.60
Machining ($2.50)	13.50	8.00	9 00	3.25	3.35	2.25
Pricing figure	15.86	10 51	14 37	9.65	9.06	9.50

Workers in the screw machine department of the Armor company plant were paid on an hourly basis. One man set up the six automatic screw machines with which the department was equipped, checked their output for quality, and kept them adjusted. During the night shift no such man was on duty. The day man made sure that the machines to be run at night were in good adjustment when he left at the end of his shift. Occasionally the night foreman checked the work coming off the machines but did not adjust them. If the work failed to meet specifications, he shut the machine down for the night and the next morning the setup man adjusted and started the machine again. The machines were kept supplied with bar stock by several unskilled workers who did common labor work in various departments. Only a fraction of their time was required for this task.

Some return was expected from scrap if brass were the material used; but the expected steel scrap was of such small value that it was ignored in the price calculations. The scrap value of brass was estimated at 7 cents per pound. Using solid brass rods with no hole scrap amounted to 5 pounds per M spacers; using solid brass rods and drilling a hole, 17 pounds per M spacers; using brass tubing with ⅜" hole, 1 pound per M spacers.

What prices should Mr. Armor have quoted to his customer?
What facts were required for final decision?

27. THE O. A. SUTTON CORPORATION (B).[1] Price and Dating Plan as Promotional Device

In January, 1951, the vice president in charge of sales of The O. A. Sutton Corporation was concerned about the overwhelming success of its 1951 promotional program, since it appeared that orders might soon considerably exceed productive capacity. Several factors had influenced the management in designing an unusually aggressive program for the season. The principal

[1] See The O. A. Sutton Corporation (A) case for introduction and background, p. 159.

one was the excessive dealer and distributor inventory position in the winter of 1950–1951 as the result of an abnormally cool 1950 summer. Because it was an O. A. Sutton corporation policy to carry a moderate, well-balanced inventory, a special promotion was held in August, which offered distributors an amount equal to one-half their purchases during the 1950 dating plan. Korea had occurred previously and distributors were very willing to buy because of the fear of an impending material shortage. In the fall of that year the company introduced a new model and had sold large quantities to dealers. The long inventory position of distributors and dealers was aggravated even more by the highly seasonal nature of the fan business and thus had not been affected by the wave of consumer buying experienced by most other consumer durable goods. In order to protect the dealer's inventory no model change in 1951 was contemplated, which eliminated any usual dealer incentive to stock up on new models.

Shortly before the annual distributor sales meeting, the company had announced an increase in the retail price of all Vornados. Fans were highly seasonal and generally did not leave the distributor's stocks until the beginning of the calendar year. The company sold its fans on its dating plan whereby for orders shipped between December and May 1 the distributor would pay one-half on May 1 and one-half on June 1.

In order to sell even more fans to distributors, thereby allowing continuous production without the company's building up a large finished goods inventory a sales meeting was called in November, when the company presented its 1951 promotional program. Before going into the details of the program, the vice president in charge of sales pointed out to the distributors that in 1951 the market would be more lucrative since the public had money to spend and the continuing increase in retail prices served as an incentive to buy. Furthermore, The O. A. Sutton Corporation currently was in a position to fill any orders submitted as opposed to many other manufacturers of high-quality products who were unable to do this. For example, electrical appliance distributors were faced with a shortage of products which left their salesmen not totally occupied. It was suggested that this spare time be utilized by the salesmen to sell Vornados. The desire of consumers to buy was also reflected by a willingness of dealers to buy from distributors in view of the rising price picture and the possibility that high-quality products would become unavailable in the reasonably near future. The vice president in charge of sales then pointed out that the total market itself was expanding, as illustrated by the fact that during 1949, 2,038,740 new electrical customers entered the market. And lastly, he emphasized that the credit controls which were hurting the sale of high-priced consumer durable goods, such as automobiles and houses, actually helped sales since Vornados generally were not subject to the rigid credit restrictions imposed on major items.

The fundamental element in the plan itself was an announcement to the dealers that although an increase in retail price had been announced there would be no corresponding increase in the distributor price. This offer was to be effective only until the raw materials currently in stock had been used. When the company started using high-priced raw materials, the distributor price was to be increased to give the normal discount. Although it was suggested to distributors that they pass this extra discount on to their dealers, the sales aids given to the distributors were designed in such a manner as to permit the distributor to pass on as much or as little of this extra discount as he desired. Passing on this extra discount would stimulate early buying by the dealers, and it would also frustrate and confuse competition, since they were fully aware of the company's announced price increase and they would obtain varying reports in regard to the company's dealer discounts.

The advertising budget of the company was to be double the 1950 advertising budget, and there were to be twice as many sales aids plus several new ones to help distributors and dealers sell Vornados. In addition, the company was planning to increase the number of air test laboratories and put them at the disposal of the distributors.[2]

In December, 1950, the company rescinded its special discount, but by February orders from some territories were still coming in at six times the normal rate. It was recognized that factors other than the promotional program were responsible for the current rate of orders. The company could supply at this rate for one or two months, but unless the orders slowed up by that time, it would have to go on some type of allocation policy. In view of this the question arose as to whether it might not be prudent to decrease the impact of the company's promotional campaign, and if so, what aspect of it should be changed first. The vice president in charge of sales believed that the company's salesforce needed to work at peak efficiency; otherwise it would become discontented and less effective.

28. FARBER STRUCTURAL STEEL COMPANY. A Proposal to Submit a Bid Below Cost in Order to Employ Idle Plant Capacity During a Business Depression

The Farber Structural Steel Company, located in Chicago, Illinois, operated a well-equipped plant for the fabrication of structural steel for buildings, bridges, and structures. This plant had a capacity of approximately 30,000 tons per annum. Through the quality of its performance, the company had

[2] Air test laboratories were large, collapsible Plexiglas rooms, having cellophane streamers hanging at one foot intervals from the ceiling. When in use for demonstration purposes, it was furnished like a normal living room except that at one end it had a table upon which several Vornado fans and several competing fans were located. The movement of the streamers caused by turning on the various fans, one at a time, inside the air test laboratory, served as an excellent means of demonstrating the effectiveness and superiority of Vornado fans.

built up good will in the territory which it served, and its balance sheet showed a comfortable surplus.

Fabrication consisted of cutting, punching, drilling, machining, assembling, riveting, and bolting the various pieces and delivering them to the building site ready to be erected in place. Since structural steel fabricators rarely attempted to produce steel themselves, they were dependent upon rolling mills for the steel upon which they worked, buying it as required for each contract they secured. Contracts for fabrication specified in detail the structural steel included in the architect's plans and were let, usually for a lump sum, on the basis of open competitive bidding among fabricators.

As every building, bridge, or structure differed from every other one, it was impossible to produce work in anticipation of orders. Furthermore, the demand for building material varied with the business cycle and with the time of year so that by the nature of the enterprise it was impossible to stabilize the volume of work that was in the market. The industry was practically always on a "feast or famine" basis.

In a recent year of adverse conditions, only a very limited amount of building construction was in progress. At that time quotations were solicited through general contractors for structural steel to be used in a large office building. The Farber Structural Steel Company prepared a cost estimate as follows:

2,800 TONS OF STEEL

	Cost per ton	Total cost
Steel delivered to plant	$40 00	$112,000
Paint stock	0.50	1,400
Trucking (to be sublet)	1.50	4,200
Fabrication:		
Payroll that would not be spent if this order is not booked *	10 00	28,000
Costs of every description which would be properly chargeable to this work, including payroll, plant service, overhead expense, but which would continue whether or not this contract is booked †	8.00	22,400
Total	$60.00	$168,000

* Employees to whom this money goes would be out of work unless they found something else to do.

† Without this order, this unearned burden would have to be made up from profits on some other work before any net profit on the year's business is possible, or else become a direct charge against surplus.

The sales manager of the Farber Structural Steel Company argued that a price less than total cost should be bid, while the president disagreed, desiring to add some profit to the cost figure.

The sales manager asserted:

> It is better to keep the organization intact and earn some overhead expense rather than to discharge the employees and earn no part of the cost of staying in business. It would be preferable to adopt a defensive policy hoping to be in a stronger position to make up losses and to earn dividends when business conditions improve.

The president stated:

> One can never show profits except by adding profit to cost. To bid below cost is to invite bankruptcy. Such acts make bad market conditions worse. If our competitors all followed the arguments of the sales manager, it would mean ruin for everyone, since even in the best of times there would always be some concern bidding below cost on the plea of necessity. With only a limited amount of work being offered, it is increasingly important to make a profit on what jobs there are.

Both agreed that lower bidding prices would have no material effect on the volume of work being placed in the market, as a basically bad condition of business was the controlling factor.

What action should the Farber Structural Steel Company have taken? Justify your conclusions.

Provided the views of the president predominated and later the general contractor, who was particularly friendly to the Farber company, offered the structural steel contract at $145,600 with the statement that the canvass for the structural steel bids appeared to fix the market at this level, should the Farber company have accepted the offer? Why?

29. STANN COMPANY. Determining Policy as to Price Level

The Stann Company of Boston bought out at a receivership sale the plant and good will of the Devoe Beverage Company. Among the products that the Devoe company had produced was a high-price bottled beverage, on which had been spent nearly a half-million dollars in advertising. The attempt to develop a profitable business, however, had met with little success. Based on the experience of the Devoe company, it seemed useless to the Stann management to spend more money advertising this beverage, the sales and profits of which were just large enough to pay the overhead charges of the plant purchased at the receivership sale. On the other hand, the manufacture of this article took only about 15% to 20% of the capacity of the plant. The experience of the Devoe company indicated conclusively to the board of directors of the Stann Company that practically no additional business could be obtained by a reduction in price, nor could an increase be expected from additional advertising.

The president of the Stann Company believed that the solution of the trouble was to produce a different beverage. Accordingly, he made a preliminary investigation of the situation and found a beverage which he believed had every indication of becoming a big seller. The product was tried out for a short period. The management was convinced by this trial that, if the new beverage was to be marketed successfully, it would have to be sold by retailers to the consumer at 25 cents. To raise the price would destroy the possibility of large sales. The president had cost figures which showed that if only two direct manufacturing costs, namely, materials and labor, were charged against this beverage, it could be produced and return a small margin of profit to the company. After carefully reviewing the cost figures, he suggested to the board of directors that the new beverage be produced and that no overhead expenses should be charged against this product, that the manufacture of the old beverage be continued which would, from the experience of the Devoe company, net a sufficient profit to meet the other operating expenses of the plant.

Two members of the board of directors took a stand against such a procedure. They maintained that it was poor business policy and a breach of ethics to sell an article at a price which did not bear its full share of the manufacturing costs.

Should the Stann Company have marketed the new article at 25 cents?

30. CENTRAL LACQUER COMPANY

The Central Lacquer Company, a medium-sized manufacturer of paints and varnishes, located in central Ohio, sold principally to the industrial maintenance markets and to firms which used paints in processing their products. Principal customers were found among the furniture and metal manufacturing companies and automobile producers. Annual volume was about $20,000,000, of which about half was sold to the maintenance market. Recently the Central Lacquer Company was asked for bids by one of the automobile companies on several different paints used for the finishing of cars. One of these paints was a cream, another a red. The company quoted the following prices:

	Per gallon
Vanilla cream	$2.32
Dagger red	3.74
Moonlight gray	2.12
Ocean green	2.05
Black	2.10

When the Central salesman came to discuss the bids with the purchasing department of the automobile company, he was confronted with a request for lower prices. It was stated that a careful value analysis had been made

of the various paints which had been used and that target prices which they had calculated were substantially below those of the paint manufacturers. It was explained that in these cost analyses attempt had been made by the purchasing department to evaluate trends in business conditions affecting cost of the product. In building up the price, reasonable allowances were made for other costs and profits and on this basis target prices had been suggested to the buyer as a basis for negotiation. The buyer was expected to negotiate prices from suppliers as close to the target as practicable in view of the seller's bargaining position and previous relationships.

In the process of making the value analysis, materials and price sections of the purchasing department undertook the analysis of material costs by determining from the company's own specifications the weight per gallon of raw materials used as solvents and drying oils, and pigments for each type of paint purchased by the corporation. It then developed a price build-up through examination of market prices of chemicals published weekly in the *Oil, Paint and Drug Reporter*. (See Exhibit 1.)

Exhibit 1. Material Cost Build-up of Vanilla Cream and Dagger Red Paint through Published Market Prices (Costs per Gallon)

	Vanilla cream	Dagger red
Solvents and drying oils:		
Synthetic glycerine ($0.23 per lb.)	$0.331	$0.327
Tung oil ($0.265 per lb.)	0.359	0.343
Soybean oil ($0.143 per lb.)	0.212	0.227
Melamine resin ($0.335 per lb.)	0.179	0.184
	$1.091	$1.081
Pigments:		
Ferrite yellow ($0.093 per lb.)	$0.013	
Titanium dioxide ($0.212 per lb.)	0.276	
Phthalocyanine green ($4.40 per lb.)	0.007	
Green gold ($5.50 per lb.)		$0.487
Amberine red ($4.45 per lb.)		0.372
Tonga red ($3.21 per lb.)		0.633
	$0.296	$1.492
Total material cost per gallon	$1.387	$2.573

The survey section was then able to develop a target price by adding process and overhead costs to the costs of raw materials. The process cost was derived through published studies of paint industry experience. The survey section applied these published experience costs to the blending of pigments, the mixing of oils and pigments, and the final pouring into drums. It made extra cost allowances in the case of Dagger Red due to the fact that blending losses involved more expensive pigments. It then added 5% for research and development and 13% for administrative expenses and profit to derive the target prices, as shown in Exhibit 2.

Exhibit 2. Price Summary of Vanilla Cream and Dagger Red through Paint Industry Experience and Standard Allowances (Costs per Gallon)

	Vanilla cream	Dagger red
Material.	$1.387	$2.573
Processing ..	0.405	0.494
Research and development (5%)	0.090	0.153
Admin. and profit (13%)	0.234	0.399
Target price per gallon .	$2.116	$3.619

What should the sales representative have done in this situation? Should buyers' target prices be accepted as selling prices?

31. FORRESTER MANUFACTURING COMPANY. Administrative Problems in Introducing Price Increases to an Industrial Consumer

From 1940 to 1946, the Forrester Manufacturing Company, a large manufacturer of automotive and aircraft parts, had experienced a steady increase in the cost of producing its principal items, some of which were valves, pistons, bearings, and steering components. While similar increased costs were encountered by competitors, company management was aware that a large portion of it was the result of a liberal wage policy which, although making for excellent labor relations, kept its products on a relatively high cost level. Nevertheless, uninterrupted production, manufacturing efficiencies, and a high-quality product had earned Forrester a favorable competitive position over the past decade. The steady upward spiral in prices, particularly on precision automotive intake and exhaust valves, which were sold as original equipment to many large car manufacturers, had been accompanied by a growing resistance on the part of purchasing agents to accept higher prices without a logical explanation by the supplier. In the light of these developments, Mr. Dwight P. Hodges, general sales manager, decided that a change should be made in the firm's pricing approach, and instead of quoting a single price as had been done in the past, Forrester should now "lay its cards on the table" and give certain customers a detailed breakdown of prices and an explanation of production costs. Mr. Hodges based his decision not only on current market conditions, but also on various long-run considerations which he felt were important to the maintenance of good customer relations.

The company manufactured three classifications of parts broken down as follows: a line of replacement automobile parts; a line of original equipment parts; and aircraft parts and accessories. While sales during the war years had risen to $135,000,000, estimates placed 1946 sales at approximately $65,000,000 with replacement parts accounting for a little over 50% of this

figure. During normal years, however, each product group represented about one-third of the business. Because of the nature of the company's market, replacement parts were handled by an entirely different type of sales organization than were aircraft or original equipment items. The former were sold through a jobber-distributor organization comprised of some 3,600 automotive wholesalers with 4,300 outlets and over 9,000 wholesale salesmen selling to many thousand garages, repair shops, and fleet truck owners in the country. The remaining two product groups were sold direct to customers by an inside sales organization consisting of the general sales manager, two product sales managers in charge of automotive and aircraft parts, and three sales representatives located at points where contact with important parts buyers could be maintained. Because of the size of many of the firm's contracts and the importance of each customer (there were only 250 original equipment buyers), negotiations were often carried on by the general sales manager, and sometimes involved the president, providing his contacts on a top-management level with the customer would assist the sales department in closing a deal.

Supporting Mr. Hodges' decision to strengthen Forrester's position with many important automotive customers were several basic considerations related to the nature of the market. While competition on precision parts which were difficult to produce was not as stiff as on simpler parts such as radiator caps, prices were relatively low, profit margins were correspondingly narrow, and contract requirements usually ran into millions of parts. Thus, a large investment in machinery was required together with mass production methods; once both were established, the loss of a large volume account, especially in times of low business activity, would be injurious. Furthermore, Mr. Hodges explained that the large differential between prices as they were now and prices as they were during the depression period of 1933 was the result of "inside" competition. During the earlier period, because of the low volume of business at automobile plants, some of these firms saw fit to utilize idle capacity by producing their own parts, letting former suppliers shift for themselves. The threat of this possibility led companies such as Forrester to reduce prices to an unprofitable level; in this manner the company could supply customers with the same percentage of requirements except that orders were on a very small scale.

Margins were necessarily low in the automobile parts business because a differential of as much as $\frac{1}{10}$ cent on a part that cost the buyer 10 cents meant a cost or saving of as much as several thousand dollars in some cases. Thus, purchasing agents and other executives of the larger automobile producers scrutinized any cost estimates submitted by suppliers very closely. To this end, many such manufacturers maintained a cost estimating section in their engineering departments whose function it was to study suppliers' manufacturing methods and facilities with a view to estimating what prices

should appear on bids. Thus, suppliers in Forrester's position were compelled to support quotations with adequate explanations. Since these estimating departments maintained complete reports on the processing of parts by suppliers, a detailed cost breakdown and explanation would enable Mr. Hodges to challenge any figures which he felt were out of line.

In preparation for negotiations with one of Forrester's large customers, the Speedwell Division of the Fessler Manufacturing Company, to be conducted during July, 1946, Mr. Hodges proceeded to draft a letter to the firm's purchasing agent requesting that, in view of certain cost increases not previously considered in establishing these prices, he re-examine the prices then in effect for four types of valves. The letter was submitted according to a procedure recently agreed upon by Mr. Hodges and Fessler executives, and its content was broken down to provide the sort of information which the latter would need in acceding to any price increase to Forrester. The text of the letter follows:

FORRESTER MANUFACTURING COMPANY

Detroit, Mich.

July 2, 1946

Speedwell Division
Fessler Manufacturing Company
Detroit, Michigan

Gentlemen: *Attention—Mr. W. C. Shaw*

We recently discussed with you the matter of cost increase which had been experienced in our plant with reference to finished exhaust valves and intake valve forgings which we supply for your production use. We also outlined for your consideration a proposal for future negotiations of selling prices, which would incorporate the following procedure:

1. The Forrester Manufacturing Company would submit with each quotation a breakdown of cost structure, consisting of:
   (a) Raw Material
   (b) Direct Labor
   (c) Factory Overhead
   (d) Scrap Allowance
   (e) Administrative Overhead
   (f) Profit
2. The Speedwell Division would have the opportunity at any time to make a detailed survey of our manufacturing costs, and our records of standards, production and rates could be inspected whenever desired.

In presenting revised figures for your 1946 production, we ask that you consider certain changes in conditions at our plant which have not been reflected previously in our selling prices. For the purpose of discussion, we will list these under: (1) Material Cost; (2) Production vs. Standards; (3) Factory Overhead; and (4) Direct Labor Cost.

MATERIAL COST PER 100 VALVES

	47020	47022	47019	47021
1939	$5.02	5.49	1.74	2 01
1946	$5.39	6 00	2.83	3.08

The preceding figures reflect latest increases in steel prices amounting to 8.2% on Class 15 exhaust steel, and 4% on type BT-1 intake steel. It will be noted that the price of Class 15 steel remained fairly constant from 1939 through 1945, whereas the type BT-1 steel increased in price over 50%.

PRODUCTION VS. STANDARDS

A survey of productive efficiency vs. standards from 1939 through 1945 indicates that process refinements have in general absorbed any loss in average production per man-hour, since the standard hours per hundred pieces required to produce any of your valves has remained fairly constant for the period surveyed. You will recall that we went over these surveys for exhaust valves, and they are again available upon your request. No claim is made for cost increases resulting from decreased production per man-hour. The cost estimate we are submitting is based on tightly engineered standards which we may, or perhaps may not, be able to achieve. We accept this as our own operating responsibility.

FACTORY OVERHEAD

Our experience in prewar years indicates that our factory overhead for automotive production ran approximately 190%. In our new plant, overhead centers are being developed and within 90 days we should be able to present definite figures applying to your valves. In the meantime, it is necessary to arbitrarily assign a percentage for factory overhead. Our breakdown of costs shows an overhead figure of 175% against direct labor in figuring a factory cost for finished exhaust valves. In computing costs for intake valve forgings, we have used 300% of forge shop labor and 175% of machining and grinding labor.

DIRECT LABOR COST

We have been confronted with serious increases in manufacturing costs resulting from average hourly rates being increased from 74 cents per hour in 1939 to $1.38 per hour in 1946, representing an increase of 86.4% for the period. The schedule of these rate increases was as follows:

Hourly rate, 1939 ...	$0.74
General increase Dec. 8, 1940	0.05
General increase June 25, 1941	0.05
General increase Nov. 24, 1941	0.12
General increase Feb. 13, 1942 .	0.08
Miscellaneous increases	0.19
General increase Feb. 1, 1946....	0.15
Hourly rate, 1946....	$1.38

The "Miscellaneous Increases" shown as $0.19 per hour resulted from the abolishment on May 30, 1943, of the differential between the so-called commercial and aircraft rates, as well as from periodical correction of inequities within and between plants.

Until the Fessler Manufacturing Company has been granted adequate price relief on the sale of cars, we agree to supply these valves up to October 1, 1946, at our actual factory cost, without reference to administrative overhead or profit. These prices per 100 pieces are as follows:

		Per C pcs.
#47021	in. valve forging	$10.25
#47019	in. valve forging	9.99
#47022	finished ex. valve	19.73
#47020	finished ex. valve	19.12

We are attaching separate sheets showing the cost breakdown of finished exhaust valves and intake forgings. The figures presented, to the best of our knowledge, reflect the valve situation at our plant at the present time. Complete access to our cost records is available to any Speedwell representative at any time, in line with our proposal for future negotiations of selling prices.

Yours very truly,

D. P. Hodges
General Sales Manager

DPH:HR

SPEEDWELL DIVISION

Cost Analysis, Intake Valve Forgings

Selling prices	1939	1940	1941	1942	Proposed 1946
#47019 (8 cyl.)	$0.049	$0.049	$0.050	$0.052	$0.0999
#47021 (6 cyl.)	0.051	0.051	0.052	0.054	0.1025

Cost Analysis per 100 Forgings

	#47019		#47021	
	Estimated	Revised to	Estimated	Revised to
Material	$ 2.83	$ 2.83	$ 3.08	$ 3.08
Labor	2.29	2.08	2.29	2.08
Overhead *	5.19	4.81	5.16	4.81
Forge (300%)				
Machining (175%)				
Scrap (3%)	0.32	0.29	0.32	0.30
Factory cost	$10.63	$10.01	$10.85	$10.27

* Overhead computation per 100 forgings.

	Direct labor		Overhead %		Est. overhead
Forge shop direct labor	$0.93	×	300%	=	$2.79
Mach. and grd'g. direct labor ($1.28 per C less 16% = $1.08) *	1 08	×	175%	=	1.89
Shipping direct labor	0.07	×	175%	=	0.12
	$2.08				$4 81

* A comparison of our machining and finishing cost estimate per 100 valves with the Speedwell shop experience for these forgings indicated a 16% saving in Speedwell's favor. We, therefore, agreed to reduce our direct labor cost by this percentage.

These parts are not rough forgings. They are actually semifinished valves. We list below the operations completed at our plant, as compared to the finishing operations necessary:

Forrester Operations	*Speedwell Operations*
Forge	Turn retainer grooves
Anneal	Machine chamfer and point to length
Sand blast	Semifinished grind stem
Roll straighten head and stem	Finish grind tip end
Turn head and stem diameter	Torch tip
Indicate head and stem	Scleroscope
Rough grind stem	Finish grind stem
Point to length	Finish grind seat
Inspect	Inspect
Ship	

SPEEDWELL DIVISION

Cost Analysis, Finished Exhaust Valves

Selling prices	1939	1940	1941	1942	Proposed 1946
#47020 (8 cyl.)	$0 1353	$0 1333	$0 1363	$0 1420	$0 1912
#47022 (6 cyl.)	0.1404	0 1368	0 1399	0 1461	0 1973

Cost Analysis per 100 Valves

	#47022		#47020	
	Estimated	Revised to *	Estimated	Revised to *
Material	$ 6.00	$ 6 00	$ 5 39	$ 5.39
Labor	5.70	4.79	5.70	4.79
Overhead (175%)	9 97	8 37	9.97	8.37
Scrap (3%)	0.65	0.57	0.64	0.55
Factory cost	$22.32	$19 73	$21.70	$19 10

* A comparison of our machining and grinding cost estimates per 100 valves with Speedwell shop experience on valve forgings indicated a 16% saving in Speedwell's favor. We, therefore, agreed to reduce our entire direct labor cost by this percentage.

Exhibit 1. FORRESTER MANUFACTURING CO. Increase in Direct Labor Costs as Compared with Cost Increases Due to Changes in Standards and Methods—Valve #T-466

1939 type of machine	Dept and group		Operation No		Std hrs per C pcs		Std pcs per hour		Base rate		Std $ per C pcs		1945 type of machine	Remarks
	'39	'45	'39	'45	'39	'45	'39	'45	'39	'45	'39	'45		
Buffalo shears	24A	21A	1	1	0.031	0.034	3,106	3,106	0.71	1.15	0.02	0.04	Buffalo shears	
Sly fanner	20A5	20A5	71	71	0.03	0.03	3,416	3,416	0.67	0.95	0.02	0.03	Sly fanner	
Ajax press	20A4	20A2	12 1/2	12 1/2	0.812	0.812	129	129	0.70	1.113	0.63	0.88	Ajax press	
Punch press	20C2	20C2	2 1/4	2 1/4	0.138	0.138	750	750	0.69	1.03	0.09	0.14	Punch press	
Waterbury Farrell	3A1	3A1	46-3/4	46-3/4	0.128	0.128	820	820	0.75	1.11	0.09	0.04	Waterbury Farrell	
Conveyor furnace	4A3	4A3	1.801	1,801	0.091	0.085	1,151	1,234	0.66	0.94	0.06	0.08	Conveyor furnace	
Waterbury Farrell	3A1	27A	46-3/4-2	46-3/4-2	0.128	0.213	820	492	0.75	1.11	0.09	0.24	Waterbury Farrell	
Set of centers—indicator	3A2	27A	69	69-2	0.075		1,103		0.62	0.95	0.04		Set of centers—indicator	
Cinn centerless	3A1	27A	28 1/2	28 1/2	0.138	0.216	759	485	0.75	1.11	0.10	0.24	Cinn centerless	Chart revised—too tight
Cleveland auto	3B4	27A	8	8	0.28	0.426	370	240	0.70	1.08	0.18	0.45	Cleveland auto	Chart revised—man mach ratio changed
W & S	3C2	27A	11	11	0.214	0.214	490	490	0.62	1.03	0.13	0.22	W & S	
B & S	3C1	27A	40	40	0.201	0.213	523	492	0.80	1.16	0.15	0.25	Lipe Rollaway	
W & S	3C2	27A	6F	6F	0.128	0.213	820	492	0.62	1.03	0.08	0.22	W & S	
Washing machine	3C2		78		0.04		2,563		0.64		0.03			Operation removed
Cinn centerless	3E1	27A	29 1/2R	29 1/2R	0.130		807		0.83	1.16	0.10		Cinn centerless	Chart revised—too tight
B & S	3F2	27A	19F	19F	0.15	0.229	683	459	0.62	1.08	0.09	0.24	Besley grinder	
Tank—hand torch	3F3	27A	209	209	0.176	0.213	596	492	0.68	0.99	0.11	0.19	Tank—hand torch	Chart revised—too tight
Cinn centerless	3E2	27A	29 1/2F	29 1/2F	0.223	0.426	469	246	0.83	1.24	0.12	0.51	Cinn centerless	Chart revised—too tight
B & S or Landis	3D	27A	30F	30F	0.569	0.640	203	164	0.81	1.16	0.45	0.73	Landis automatic	Chart revised—too tight
Total standard direct labor cost					3.689	4.232					2.614	4.592		
Variance—standard direct labor cost					0.369	0.318					0.261	0.344		
1939 increase in standard due to inefficiency of group—10%					0.406						0.288			
Out of standard (1939—10%) (1945—17%)					0.406	0.773					0.288	0.841		
Total direct labor cost including 100% guarantee, out of standard and variance					4.870	5.323					3.451	5.777		
Increase in standards						20%								
Change in methods						−11%								
Percentage of increase from 1939 to 1945 *						9%						67%		

* Note that while direct labor costs increased 67% from 1939 to 1945 the changes in standards and methods would have increased costs only 9%. An increase of 58% was caused by changes in base rates

To supplement this description of the company's cost performance, Mr. Hodges further planned to include a detailed analysis of the direct labor cost going into the production of each type of valve.

Exhibit 1 is an example of the type of cost breakdown which he anticipated presenting to the Speedwell Division; the purpose of this was specifically to point out the proportion of cost increase accounted for by changes in base rates for various operations as compared with those accounted for by changes in standards and methods.

CASES IN BRIEF

1. A manufacturer of washing machines embodying an entirely new principle faced the problem of determining the margins which he should set up in pricing for distribution through independent distributors. It was proposed that he engage a market research firm to find out what discounts were at present granted by competing washing machine manufacturers and that he set up a price schedule with a somewhat higher list but with discounts which would give dealers and distributors the maximum offered by any reputable competitor.

Was this likely to furnish a satisfactory basis for pricing a product?

2. In late 1955, the Department of Justice in a civil antitrust proceeding secured a consent decree in its action against the Eastman Kodak Company in which it contended that the company's single price for color films and their processing represented an attempt to monopolize processing operations. Eastman in a consent decree filed at the same time as the government action denied any illegal activity but agreed to separate the operations. It also agreed to license photo finishers and supply training and technical data. Under the old system, the suggested retail price for a 20-exposure roll of 35 mm. Kodachrome, processing included, was $3.25. Under the new plan, the customer paid $1.85 when he bought the film and $1.50 when he picked up the processed film, a total of $3.35. The new prices for the 36-exposure film were $2.60 per film and $2.50 for the processing, a total of $5.10 against the former combined rate of $4.95.

What were likely to be the effects of the new pricing upon Eastman Kodak Company; upon competing manufacturers of color film, upon ultimate purchasers of film?

3. The Eddy Metal Working Company was asked to quote on a lot of metal covers for the Bauer Aircraft Company. The order called for 300 metal battery switch box covers, 100 of these to have the word "off" engraved in a single place while the remaining 200 were to have the letters "chg" engraved on them. The representative of the company was told that he was the low bidder among metal shops with a price of $1.75 per unit, but that the order would not be placed with him because they had got a firm bid of 25 cents per unit. The seller learned later that, in checking through the bids, the chief cost analyst had reasoned that the most costly operation would not be the forming of the metal but the engraving of the cover. He knew from experience that the three metal working companies did not have the facilities to do this work but he knew an engraver which had metal forming equipment. When the chief cost analyst had called an executive of the engraving company and explained the specifications and requirements, he mentioned the price of 25 cents per unit.

What should the Eddy company have done in the face of this quotation?

4. On December 27, 1954, the RCA announced that disc prices would be slashed as much as 40% effective the following Monday. Under the new pricing, 12-inch classical records were to be cut 33% to

$3.98 from the previous $5.95. Ten-inch long-playing records were reduced from $4.95 to $2.98, a 40% reduction. At the same time, RCA embarked on an extensive advertising campaign placing several hundred pages of advertising in newspapers throughout the entire United States. RCA executives stated that the new price plan was developed because of the firm belief that the record industry was on the threshold of great expansion and low pricing would be made possible partly because of decreased production costs which would result from increase in volume. It was stated that RCA anticipated these savings and was passing them on to the consumer immediately.

What problems would RCA be expected to have met in connection with dealers and distributors?

What policies should it have adopted to maintain and increase dealer interest in the sale of records?

5. In late 1954, the Hazard Insurance Company which had previously concentrated on automobile insurance announced that it planned to enter the $1.5 billion a year fire insurance business. It began by offering home owners rates about 20% below those charged by competing fire insurance underwriters. It was further stated that the reason Hazard could afford to sell insurance at such rates was because the company paid its agencies lower commissions than its competitors. A Hazard agent was reported to get a 15% commission on new automobile business and 6½% on renewals, while other agencies generally collected about twice as much. All Hazard's commissions on fire policies were reported to be much lower than competitors.

To what extent did Hazard's pricing policies enable it to get a share of the residential fire insurance business?

Did its entrance into the field compel other fire insurance companies to cut their rates similarly?

6. The X Machine Company developed a new model of a job printing press. The old model sold at $2,750 while a larger size sold at $3,500. The new models were estimated to be 25% to 35% more productive than the old models. The nearest competing machine which possessed certain additional features sold at $4,200.

Certain members of the company proposed that the price should be maintained at $2,750 to secure the advantage of the selling point of greater productivity without increase in price. Others presented a proposal to sell the new machine at $2,950, in part because at that price the net profit per machine before taxes was estimated to be approximately $700. It was argued by this group that higher labor costs were a strong probability, that the amortization of expense over an 8-year period which was contemplated in the cost figures involved excessive risk for the company while, at the same time, it was believed that demand at $2,950 would continue to bring in volume business.

At what price should the new model press be sold?

7. The Whitford Company manufactured and distributed a high-quality tooth paste under the Whitford brand. Years of magazine advertising supported by some radio broadcasting had helped the product to gain a national reputation as a tooth paste of dependable quality. Distribution was obtained through drug wholesalers, beauty shops, drug and variety chains. For many years, the company had been a staunch advocate of maintaining resale prices and when, in the thirties, the laws permitting resale price maintenance by contract were passed in various states, the company took advantage to "fair-trade" the product. In the first states after the company had evoked the provisions of the law, sales to drug chains in the state had dropped by one-third, and promotion by chain druggists had been greatly reduced and, for the most part, no display was given to the product. Furthermore, independent druggists had not responded as anticipated, and purchases were not appreciably larger than before when chains had been allowed to continue price cutting.

Should the executives have decided legally to adopt resale prices in all the

states where legislation permitted it? Is the company acting in the public interest when it fair-trades its product?

8. A New York manufacturer of men's suits who supplied department stores with medium-price clothing received a request in 1948 from one of his good customers for 100 suits to be used for a special October sale. These suits were to be billed at $1 per suit less than the price quoted for fall deliveries of equal quality. Since the department store purchases of spring, 1948, suits, the cost of woolens had advanced substantially. The suit manufacturer had raised prices for fall delivery to absorb part of the additional costs, but he was somewhat concerned about further advances before fall deliveries could be made. He was undecided therefore whether the request for 100 suits at the old price should be accepted or not although factory capacity was sufficient to take care of the business without any difficulty.

What would you do?

9. *Should the publisher of a best selling novel, priced at $3, sell reprint rights to Pocket Books or some other publisher of 25-cent editions before the demand for the $3 edition has disappeared?* The rights would be sold on a royalty basis of 1 cent per copy for the first 150,000 and 1½ cents per copy thereafter, which would be divided equally between the original publisher and the author according to their contracts.

Should the publisher of Pocket Books have raised the price to 50 cents of some of its very popular volumes such as the Handbook of Babies and Child Care *after more than 3,000,000 copies had been sold at prices of 25 cents and later 35 cents?*

10. The Colburn Company had not decided at what price its oil burner should be sold to users, or what the margin of the agents should be. Investigation in the middle thirties showed that there were about 300 companies manufacturing domestic oil burners which were sold to users at prices ranging from $200 for the cheapest units to considerably above $1,000 for the most expensive. A large number of manufacturers was trying to make oil burners to sell for $250 or less, but practically all the successful domestic oil burners had been priced at between $250 and $500. Executives of the company estimated that a satisfactory manufacturing profit would be secured if the Colburn Company obtained a net price of $75 exclusive of any marketing expense, assuming that 1,000 units a year would be manufactured. If production reached 5,000 per year, this price could be lowered approximately $10 without decreasing the company's margin of profit. Along with the burner, the company supplied two globe valves, a constant level device, a purolater, and a draft adjuster.

Installation costs, determined from practical experience, varied from $11 to $28, according to the amount of pipe necessary, the type of wall to be penetrated to place vents, the amount of bricking-up required, and the distance of the place of installation from the dealer's warehouse. The automatic thermostatic control device, which was necessary for a complete installation, cost the dealer approximately $25 installed, and the fuel tank also cost approximately $25 installed.

At what retail price should the burner have been sold?

How should the margin allowed to dealers have been determined?

11. How should a manufacturer who sells his product at about $25 quote prices in various geographical districts? Freight on the product is $2 to $2.50 to the Middle West; to the Far West it is $4 to $5 Shipments of the products are made principally direct to dealers but sometimes through jobbers. The manufacturer believed that western competition could not be met successfully by increasing the price of his goods to western dealers.

Should prices be quoted f.o.b. eastern points, f.o.b. points of delivery, f.o.b. western spot stocks, or on a delivered basis?

12. A large oil company, selling fuel oil as well as other petroleum products, proposed to provide for the installation and servicing of oil burners at a nominal price of $100, provided householders signed a

5-year contract for fuel oil requirements at prices to be fixed each year according to the prevailing market.

From the viewpoint of the householder is the pricing of oil burners on such a basis a sound one?

13. In the spring of 1949, department stores again began to apply their own labels to lower-price sheets and pillow cases. In the endeavor to offset declining volume of sales, retailers were intensifying efforts to attract business through strong promotions. It was believed that buyers would continue to purchase requirements of branded sheets from the manufacturers and resell those goods at a satisfactory markup. It was also believed that the stores would play up unbranded sheets with their own labels and take a smaller markup on these.

What is the interest of the manufacturer in this situation? What should be the relationship of the prices on seconds to the prices on first quality goods? Should a manufacturer of branded goods endeavor to maintain his price plan to give big discounts on seconds if stocks begin to pile up, rather than to lower his maintained price?

14. Several instances have occurred in recent years in which manufacturers of radio and TV sets have announced drastic reductions in prices, sometimes to clear accumulated inventories. Such cuts have been generally confined to a few models but have frequently been followed by similar cuts of other manufacturers.

When such cuts were made, what was the obligation of the manufacturer to dealers and distributors who had stocks on hand?

What policies could be adopted in order to prevent loss to wholesaler, distributor, and retailer good will?

B. DISCOUNT POLICY; TRADE, QUANTITY, AND CASH DISCOUNTS

In the hardware, furnishing, automotive, radio, and other lines it is common practice to quote prices which are not the actual sale prices but which yield information as to actual price levels only by the deduction of certain discounts, called trade discounts. Sometimes the base price from which discounts are taken, usually called the list price, is intended to be the consumer price; sometimes the price is intended to be the price at which the goods are to be sold to retailers; sometimes the list price bears little definite relationship to either retail or wholesale prices but may be considerably larger than any of them. But in any case, the actual prices to be paid by any group are determined by the prevailing rates of discount either for the trade or for particular commodities. The retail price may be set by the manufacturer upon a radio; the retail dealer may get from 25% to 40% discount from the wholesaler, who in turn may secure 50% to 60% discount from the manufacturer. The wholesaler frequently varies discounts to the retailer with quantity.

There are two reasons for list prices. The first is to facilitate quotation of prices and price changes for a large number of related commodities. For instance, if the price of nuts and bolts increases or decreases, it is much simpler to change the single discount figure in quoting prices than to change the prices on the hundreds of different sizes and types of nuts and bolts. Furthermore, in industries in which it is customary to issue catalogues, it is

impossible to provide economically for keeping prices up to date without some short cut such as that of fixing relative prices and notifying prospective buyers merely of changes in discount. It is likewise much more convenient for the manufacturer or wholesaler and for a salesman in dealing with prospective buyers to say that discounts upon certain classes of goods have increased or decreased than to give a long series of new net prices. The second advantage claimed for list prices with trade discounts is the alleged secrecy which enables a competitor to keep his net prices to himself, merely giving information, when required, as to discounts. While eventually competitors may secure such information, the difficulty will delay action.

More important is the policy of making reductions in prices according to the standing or business of the buyer, or according to the size of the purchases. We must distinguish, therefore, between the dealer or jobber discounts and between quantity discounts, although the initial purpose and intention are much the same. The chief justification for quantity discounts seems to be the lower cost of handling large orders in comparison with small orders, but many quantity discounts contain elements which are not represented by differences in costs. Many other factors have contributed to the development of quantity discount plans besides that of securing larger orders. Many quantity discounts are merely disguises to enable the manufacturer to yield to the pressure of powerful buyers for lower prices without unduly antagonizing purchasers of smaller quantities. The quantity discount has been forced by the action of those who purchase in large quantities and who frequently refuse to buy where such discounts are not granted. While there can be little doubt that quantity discounts are justified up to the point where differences in cost of selling and handling are offset and the point where quantity discount induces purchases in economic quantities, there is much question as to the justification of many of the discounts now offered under various guises. The newer types of retailers who purchase in large quantities secure a decided price advantage which enables them to sell at lower prices with higher profit. In so far as the quantity discounts tend to favor the large inefficient concern in comparison with the small efficient concern, they are thoroughly undesirable.

The forms which the quantity discount takes are numerous. The discount may be a simple one, increasing with quantity up to carload lots or beyond. It may be a discount upon purchases within a period from which the firm may reap only the satisfaction of having a particular customer on the books, although the number of orders and shipments may not be more favorable from a cost point of view. The quantity discount may increase or decrease on a sliding scale. It may be made contingent upon increase of sales in one period over a previous period. All these variations are not intended primarily to compensate for lower costs of handling but rather to reduce costs of selling, to procure assurance of custom or, more frequently, to veil con-

cessions in price which would constitute discrimination if given openly.

Closely related to quantity discounts are the so-called jobbers' discounts or the various price levels between different classes of distributors, particularly where one class of dealers resells to another class. The practice is most common in trades in which commodities are handled by wholesalers and manufacturers' agents, commission men or brokers, who in turn resell to wholesalers or retailers. In so far as the wholesaler's function is that of purchasing in large lots and reselling in small lots to retailers, the justification for jobbers' discounts is in part the same as the justification for quantity discounts. But other considerations have entered into jobbers' discounts. The manufacturer in some cases realizes that the wholesaler performs other functions, that of credit extension and selling, which would otherwise have to be performed by the manufacturer himself. The opinion of the courts that jobbers' prices as contrasted with retailers' prices were not justified unless there was a substantial difference in the quantities purchased has not been upheld because it ignored other functions performed by middlemen. Functional discounts are apparently consistent with the interpretation of the Robinson-Patman Act, but much more litigation will probably be required before the boundaries between illegal discriminatory discounts and justifiable differences are clarified. Certain postwar cases have reduced, but certainly not eliminated, the area of confusion relative to quantity discounts, especially the Morton Salt Company case,[1] in which the extension of discount schedules to the point where only one or a very few buyers could take advantage of higher discounts was declared contrary to law.

The cash discount is a deduction allowed by the seller on condition that payment is made within a specified time. While superficially a cash discount is considered a premium for prompt payment, in many cases a cash discount constitutes deduction from the selling price, and selling prices are really computed on the basis of invoice prices less discount. In addition to these two elements, a cash discount frequently contains a third, namely, an interest payment upon the amount of the remittance for the unexpired credit term. As with all other discounts, there is a substantial difference of opinion as to the uses and limitations of cash discounts.

The Robinson-Patman Act, which is technically an amendment to the Clayton Antitrust Act of 1914, has thus proved to have more significance and vitality than many observers in the late thirties believed. A series of Supreme Court decisions following protracted litigation has again made the act an important factor in the calculations of many sales managers who had been inclined to ignore it. The pertinent provisions of the act are the following:

> Sec. 2. (*a*) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or indirectly, to discriminate in

[1] *Federal Trade Commission v. Morton Salt Company*, 68 Sup. Ct. 822 (1948).

price between different purchasers of commodities of like grade and quality, where either or any of the purchasers involved in such discrimination are in commerce, where such commodities are sold for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, and where the effect of such discrimination may be substantially to lessen competition or tend to create a monopoly in any line of commerce, or to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them: *Provided,* That nothing herein contained shall prevent differentials which make only due allowance for differences in the cost of manufacture, sale, or delivery resulting from the differing methods or quantities in which such commodities are to such purchasers sold or delivered: *Provided, however,* That the Federal Trade Commission may, after due investigation and hearing to all interested parties, fix and establish quantity limits, and revise the same as it finds necessary, as to particular commodities or classes of commodities, where it finds that available purchasers in greater quantities are so few as to render differentials on account thereof unjustly discriminatory or promotive of monopoly in any line of commerce; and the foregoing shall then not be construed to permit differentials based on differences in quantities greater than those so fixed and established: *And provided further,* That nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade: *And provided further,* That nothing herein contained shall prevent price changes from time to time where in response to changing conditions affecting the market for or the marketability of the goods concerned, such as but not limited to actual or imminent deterioration of perishable goods, obsolescence of seasonal goods, distress sales under court process, or sales in good faith in discontinuance of business in the goods concerned.

(*b*) Upon proof being made, at any hearing on a complaint under this section, that there has been discrimination in price or services or facilities furnished, the burden of rebutting the prima-facie case thus made by showing justification shall be upon the person charged with a violation of this section, and unless justification shall be affirmatively shown, the Commission is authorized to issue an order terminating the discrimination: *Provided, however,* That nothing herein contained shall prevent a seller rebutting the prima-facie case thus made by showing that his lower price or the furnishing of services or facilities to any purchaser or purchasers was made in good faith to meet an equally low price of a competitor, or the services or facilities furnished by a competitor.

(*c*) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to pay or grant, or to receive or accept, anything of value as a commission, brokerage, or other compensation, or any allowance or discount in lieu thereof, except for services rendered in connection with the sale or purchase of goods, wares, or merchandise, either to the other party to such transaction or to an agent, representative, or other intermediary therein where such intermediary is acting in fact for or in behalf, or is subject to the direct

or indirect control, of any party to such transaction other than the person by whom such compensation is so granted or paid.

(*d*) That it shall be unlawful for any person engaged in commerce to pay or contract for the payment of anything of value to or for the benefit of a customer of such person in the course of such commerce as compensation or in consideration for any services or facilities furnished by or through such customer in connection with the processing, handling, sale, or offering for sale of any products or commodities manufactured, sold, or offered for sale by such person, unless such payment or consideration is available on proportionally equal terms to all other customers competing in the distribution of such products or commodities.

(*e*) That it shall be unlawful for any person to discriminate in favor of one purchaser against another purchaser or purchasers of a commodity bought for resale, with or without processing, by contracting to furnish or furnishing, or by contributing to the furnishing of, any services or facilities connected with the processing, handling, sale or offering for sale of such commodity so purchased upon terms not accorded to all purchasers on proportionally equal terms.

(*f*) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, knowingly to induce or receive a discrimination in price which is prohibited by this section.

The urge to maintain effective competition as a vital constructive force has not greatly lessened despite the desire of competitors to avoid direct competition. So long as competitive efforts are constructive in direction by furnishing better products or lower prices to consumers, we can view with some equanimity the efforts of certain groups to legislate immunity from the influence of competition. As has been often remarked, we need to preserve competition and its benefits but that is not equivalent to asserting that we must save unsuccessful competitors from the consequences of their failure adequately to meet the honest tests of the market place.

32. AUTOMOBILE COMPANIES' PRICING PROBLEMS

During the several years following 1951, the growing difficulty of selling automobiles at list prices led to the widespread practice of "bootlegging," or reselling to unauthorized dealers. Eventually the proposal was made that a law be introduced into Congress to prohibit the practice. For many years the so-called "anti-bootlegging" clause was contained in dealers' selling agreements with factories. In 1948, the United States Attorney General suggested to automobile manufacturers that the clause was in violation of the Sherman Antitrust Act and that manufacturers could be criminally prosecuted. The various producers promptly dropped the clause from their contracts. Several times in subsequent years, requests were made for a modification of the ruling. These were denied and the Association of Automobile Dealers then undertook to draft a bill for introduction into Congress to permit reinstatement of the bootleg clause in selling agreements. The following excerpts

from some of the hearings before the Senate Subcommittee explain the practice and raise questions. General counsel of the Federal Trade Commission appeared as the first witness in opposing the Senate bill. He stated:

> The Sherman Antitrust Act expresses the national policy against permitting any contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade. The legislative proposal under consideration (S. 3596) would create an exception to this policy in that it would authorize a restraint of trade by contracts or agreements between a motor vehicle manufacturer and its dealers.
>
> The Commission believes it undesirable to create exemptions of this kind to the antitrust laws and the basic policy of free competition expressed therein. Passage of S. 3596 would be a signal for other segments of our economy to press for special dispensation of a similar nature and would initiate a piece-meal abandonment of our national policy of unencumbered competition. . . .
>
> It would appear reasonable to expect that franchised dealers would prefer to sell their new cars at the regular mark-up to consumers than to sell at little or no profit to unauthorized dealers. As a consequence, any widespread practice by franchised dealers of "bootlegging" cars to unauthorized dealers is more likely than otherwise to result from the fact that they have more cars than they can dispose of in their regular course of trade. It would appear, therefore, that S. 3596 is directed at a result, rather than the cause, of the situation that may exist in the automobile industry, and that its enactment would not serve the purpose of preventing bankruptcies of automobile dealers. The denial to dealers who are overstocked with new cars of the means of disposal through unfranchised dealers would not solve the financial dilemma in which those dealers may find themselves. . . .
>
> SENATOR PASTORE (*John O. Pastore, Democrat, Rhode Island, a subcommittee member*): What this bill amounts to is license on the part of the manufacturer to state in his franchise to the dealer that that dealer cannot sell these automobiles to an unauthorized dealer when he is overstocked with cars.
>
> Now, that is all they are looking for, isn't it, that agreement? And we are saying now that the insertion of that agreement in the contract is in violation of our antitrust laws, is that correct?
>
> MR. KITNER: That is correct.
>
> SENATOR PASTORE: Now, what essentially is your objection to that?
>
> MR. KITNER: The objection is that such an agreement would violate the basic policy of the antitrust laws by imposing restraint on trade to the extent that this is a restraint on trade.
>
> SENATOR PASTORE: Well, fundamentally the philosophy of antitrust is to preserve the common good.
>
> MR. KITNER: Yes sir.
>
> SENATOR PASTORE: That is why we have antitrust laws. Now if the common good is being disturbed because of this law, in the promotion of the common good, why wouldn't it be a good idea to make an exception to that law? Isn't the end result of the common good the thing we are interested in?

MR. KITNER: If the Congress in its wisdom determines that such an exemption is justified by the facts, certainly that is good. . . .

Following Mr. Kitner, the executive vice president of the association appeared in favor of the bill. Mr. Charles Freed, president, was the next witness:

MR. FREED: A very grave and menacing problem, commonly referred to as "bootlegging," exists in the retail automobile industry today. The term "bootlegging" is understood in the industry to encompass the sale of a new automobile by an authorized (franchised) dealer to an unauthorized person for resale, and the subsequent resale by such unauthorized person to the ultimate consumer. This practice, in recent months, has become increasingly serious, until at the present time the long-established manufacturer-franchised dealer system of distribution is in jeopardy.

New car dealers in every section of the country have raised their voices in bitter protest and have demanded relief from this pernicious practice.

Facts submitted to NADA by authorized dealers from every state in the nation support conclusively new car dealers' claims that bootlegging must be curbed if the present system of new car distribution is to be preserved.

A digest of the evidence provided by those dealers and obtained by NADA from other sources follows. . . .

SENATOR PURTELL (*William A. Purtell, Republican, Connecticut, subcommittee chairman*): What you are telling us is that the cause of this trouble is from your own authorized dealers?

MR. FREED: Unfortunately, yes, sir.

SENATOR PURTELL: Would you say that bootlegging, too, comprises many of your own members?

MR. FREED: Yes, sir.

SENATOR SCHOEPPEL (*Andrew F. Schoeppel, Republican, Kansas, subcommittee member*): My memory is rather fresh as to what happened in the steel industry not too many months ago, and the finger of legitimate suspicion could have been, and rightfully should have been, pointed toward the steel industry at that time the same as it is legitimately, as I understand you now to say, pointed at the regular dealers.

MR. FREED: Yes, sir. We have some dealers who sell these cars to unauthorized persons and they are resold in unauthorized sales areas, generally not in their own sales areas because they don't want to interfere with business. So they go into another authorized dealer's area.

SENATOR SCHOEPPEL: Then there is a lack of discipline within your own organization?

MR. FREED: Most assuredly. . . .

SENATOR SCHOEPPEL: If you can give us a thumbnail sketch (of bootlegging), it might help the committee.

MR. FREED: The automobile is first shipped from the manufacturer to the authorized dealer and, incidentally, in all cases that I know of, on dealer's order for that particular number of automobiles.

That dealer has purchased more cars than his sales area assigned by the manu-

facturer can absorb. He therefore sells those cars to non-dealers, non-authorized dealers, who come to him from all areas because he makes it known that he has bought more cars than his retail area will absorb, so that he can make what we term "a fast buck." He can sell a car for $50, generally sight unseen, no conditioning work on it whatsoever. He turns that car over, gets cash for it; it is $50, perhaps $100, something about in that line. That unauthorized person or company takes that automobile to another sales area and, generally speaking, such as in my area in Salt Lake City, it is either sold at auction to other used car dealers or it is put on that particular used car dealer's lot.

I think we are in a free market, and we buy and sell as many cars as we can. The ordinary dealer buys and sells as many cars as he can possibly sell in his sales area.

SENATOR PURTELL: In other words, regardless of what happens to the market, the automobile manufacturer will pile on as many cars as a distributor will take?

Let's take a distributor that bought a hundred cars last year. Will the manufacturer today sell him a thousand cars if he wants to buy them—and we know that cars are hard to sell now—when the normal consumption of his market is one hundred?

MR. FREED: I think so. . . .

SENATOR SCHOEPPEL: Now, Mr. Chairman, that points up a very important thing for us to consider here with reference to this legislation, as I see it.

Now the manufacturer goes to the authorized dealer with his car?

MR. FREED: Yes, sir.

SENATOR SCHOEPPEL: He invoices that car to him; that car carries a serial number and all the regular practices of the trade as to the identification, and then from there, mysteriously or otherwise, it shows up at some auction?

MR. FREED: That is right.

SENATOR SCHOEPPEL: Now, why in the name of common sense are the authorized dealers of the United States permitting that to continue when they can check each one of these automobiles as to serial number and the other identification numbers and go right back to the manufacturer of the car, whether it is Packard, Studebaker, Chrysler, or Henry Kaiser—?

MR. FREED: Yes.

SENATOR SCHOEPPEL: They can find out initially where that car was consigned to?

MR. FREED: Yes, sir.

SENATOR SCHOEPPEL: And who made the settlements for it? Then it remains for the manufacturers, if they are going to be legitimatizing their own retail trade outlets or wholesale trade outlets in all of these states, to go right back and put their finger upon those dealers who are violating the very thing that you gentlemen are here now with this legislation asking the Congress to prevent.

SENATOR PURTELL: I understand what you fear, however, is prosecution—if you use that means of correcting that situation?

What should be done?

What were the responsibilities of (1) manufacturers and (2) authorized dealers in the situation described?

33. GENERAL ELECTRIC COMPANY (B). Cutting Prices as a Means of Meeting Discount House Competition

In an article which appeared in *The Wall Street Journal* on December 29, 1955, a change in policy of the General Electric Company was announced as follows:

GE CUTS SMALL APPLIANCE PRICES
SHARPLY IN FIGHT ON DISCOUNTERS

By a WALL STREET JOURNAL *Staff Reporter*

Bridgeport, Conn.—General Electric Co. struck a sharp blow at discount houses by slashing retail prices as much as 30% on its small appliances. The move narrows the gap between prices quoted by "legitimate" dealers and those of the discounters.

The cuts will be effective January 3.

For example, a vacuum cleaner which previously retailed for $69.95, will sell for $49.95; an automatic steam and dry iron will be reduced to $14.95 from $17.95 and the GE automatic toaster will drop to $17.95 from $19.95.

Mixers, skillets, coffee makers, grills, speed kettles, automatic blankets and fan heaters will also be reduced. The company estimated consumers would save $23 million next year if they bought as many of these appliances as they did in 1955.

The cuts will mean lower gross profit margins for wholesalers and retailers of these products, as well as for GE itself. The company did not say how much the wholesale and retail mark-ups will be trimmed.

W. H. Sahloff, GE vice president and general manager of the housewares and radio receivers division, said the cuts were made possible by "significant reductions" in distribution costs. But he also said the price changes were "a well calculated risk" to get more customers for GE appliances and so make up for the percentage slash in gross profit margins.

He also declared the cuts are "alerting the legitimate dealer to the fact that the discounter must be met" on retail prices. The lower prices, he asserted, will "give added support to the fair trade enforcement program" of the division.

Mr. Sahloff added that the division's products will now be "less attractive as loss leaders in non-fair-trade states" because of the reductions.

Discounters, Mr. Sahloff said, will be "asked" to accept realistic mark-ups "if they care to sell our goods at fair trade prices." He added that legitimate dealers, "we believe," have been "conditioned" to lower mark-ups.

"Although we have made progress in lowering our list prices over two years," he continued, "there have still been price differentials and margins which competitive manufacturers and private-brand merchandisers have been able to exploit."

Mr. Sahloff broke the news to "key distributors across the country" in a closed-circuit telecast Thursday night, before public announcement of the cuts. A GE spokesman said the reaction of these merchants had been "excellent."

The company explained the reductions were timed to take effect on the first

business day of the new year because dealers' stocks were then at their lowest levels. "The added volume which will result from the cuts won't come immediately," a spokesman said, "so we wanted the new prices to become effective when dealers would initially be hurt the least."

What risks was General Electric taking in adopting the policy?

What problems did it meet in securing acceptance of the policy by distributors and dealers?

34. IRIS PEN COMPANY

In December, 1955, a nationally known fountain pen and pencil company announced that it was giving up its long fight to enforce its "fair trade" policy and disclosed that it would add to its list of authorized dealers certain large volume companies, which was understood to include discount houses. According to newspaper reports, the company thus became the second large manufacturer within a short period to abandon fair trade following Westinghouse, which discontinued as unworkable its fair trade license prices. No public explanation was given but it was rumored that large retailers had urged the company repeatedly to permit them to meet the below list prices of competing stores.

Executives of the Iris Pen Company believed that their efforts to check price cutting on their products were reasonably effective. It had been disclosed that the company had stopped selling to 800 retailers and had started legal proceedings to enforce its policy. The cost to the company of this struggle had been about $1,000,000 in the 18 months preceding its abandonment of fair trade. In its announcement several statements were made in justification of its new policy. It was asserted that it was planning to sell to high volume mass merchandisers "with a substantial number of purchasers just as other outlets met the needs of their customers." The statement concluded:

> In fairness to all our dealers we are now permitting them to price our merchandise in accordance with their own local practice. We will no longer enforce our fair trade policy but will continue to use suggested fair trade prices.

Within less than a fortnight after this abandonment was announced, a competitor of the company announced to the National Retail Dry Goods Association the following:

> The following policy statement has been telegraphed to pen retailers nationwide.
>
> The pre-Christmas fair trade abandonment by another pen company makes Parker even more resolute to protect your profits on Parker products. Continue to buy and sell Parker without fear of profit or inventory price reductions.

Also a third company announced its intention to "actively support" the "fair trade" laws and protect the resale price of its products "whenever it is legally practicable to do so."

Was the company wise in abandoning fair trade?

35. REID COMPANY. Price Policies in Relation to the Robinson-Patman Act

The Reid Company sold equipment and supplies for use in the bulk tank stations and retail service stations of oil companies. It also sold transportation equipment for fuel oil and gasoline. A small salesforce made sales to independent companies located in three Middle Atlantic states, and officers of the Reid Company obtained orders from national or "major" oil companies that operated in the three-state area. The company issued a catalogue describing the merchandise offered for sale. In addition, salesmen carried a price book of over 100 pages that gave the quotations on the items illustrated in the catalogue. During the fall of 1936, the officers of the company decided to review the price lists and quotations to determine whether they conformed to the requirements of the Robinson-Patman Act. As a basis for discussion, the sales manager was asked to present typical examples of price policies for purchased merchandise and that manufactured by or for the company. These prices were in effect before the Robinson-Patman law was passed.

The sales manager prepared a brief memorandum for the officers which illustrated the practice of the company in handling merchandise purchased from outside sources. For instance, the company bought truck tanks, regardless of the quantity purchased at one time or over a period of time, at 20% and 15% off the list price of the manufacturer. In reselling such items, the Reid Company followed the suggested resale price schedule established by the manufacturer, which was as follows:

Single orders for less than 5 identical tanks	20% from list prices
Single orders for from 5 to 9 identical tanks inclusive	20% and 5% from list prices
Single orders for 10 or more identical tanks	20% and 10% from list prices

The effect of this price list was to enable the large buyers to obtain truck tanks at lower prices than their small independent competitors because of unsatisfactory economies of volume. The sales manager stated that the company sold storage tanks, air compressors, filling station supplies, industrial rotary pumps, petroleum volume recording meters, automobile lifts, and several hundred associated items, on which it had customarily followed the recommended selling price of the manufacturer. He said that each particular manufacturer seemed to have a different basis of discounts to the trade, but in all cases the company's cost was a uniform flat discount.

Representative samples of the pricing practices of the company with reference to items of its own manufacture were given for electric service station pumps for gasoline and also foot valves, gasoline hose, and self-closing barrel

faucets. The company used a list price and quantity discounts for individual orders on gasoline pumps and gasoline hose, a classified price for large customers, and another for small customers in the case of foot valves. On barrel faucets, the company quoted a flat price to major oil companies and a quantity price scale for single orders to other customers. The details of these several methods of pricing are shown in Exhibits 1 to 4. All prices quoted on Reid pumps or on competitive pumps were with freight allowed to destination.

Exhibit 1. REID COMPANY. Prices of Reid and Competitive Pumps

Reid Pump Prices		Competitive Pump Prices	
1 to 9 pumps	$220	1 to 9 pumps	$230
10 to 19 pumps	220 less 10%	10 to 49 pumps	230 less 5%
20 to 49 pumps	220 less 12½%	50 or more pumps	230 less 15%
50 or more pumps	220 less 15%		

Although Reid prices seemed to be lower, it was the company's experience that competitors were hiring salesmen on the same basis as vacuum cleaner, refrigerator, and oil burner salesmen, that is, on a straight commission basis. This commission varied from 20% to 25%, with the result that these salesmen, in their anxiety to earn a living wage in the small territories allotted to them, were continually giving away 15% or more of their commission, and in some instances they had taken orders for five or more pumps for as small a commission as 2%.

Exhibit 2 REID COMPANY. Gasoline Hose Prices

Size	Price per foot		
	Less than 31 ft.	31 ft. to 299 ft.	300 ft. and over
¾ inch	$0.32	$0 256	$0.23
1 inch	0 40	0.32	0.288
1¼ inch	0.48	0.384	0 346

Exhibit 3. REID COMPANY. Foot-Valve Prices

Size	Catalogue list prices	Price to major oil companies	Price to other companies
Double poppet:			
1½ inch	$10.00	$4.00	$5.00
2 inch	13.00	5.25	6.50
Single poppet:			
1½ inch	6.20	2.50	3.10
2 inch	8.70	3.50	4.35

The gasoline hose price sheet did not recognize any class of buyers and had been arranged on a sliding scale according to footage purchased.

This price list on foot valves illustrated a list price on which a discount of 50% was allowed to the independent oil trade and on which a special discount had been stated for the major oil companies. This latter discount had been based on the officers' idea of the prospective volume from this class of trade and competitive price necessity.

The competition on brass items, such as foot valves, came chiefly from two sources whose prices the company would always have to consider in arriving at its selling prices.

The first competitor had a catalogue of printed list prices, on which a discount of 10% f.o.b. factory was allowed to the independent oil company, and a discount of 25% from list prices f.o.b. factory was allowed to the major oil company group.

The second competitor in brass goods had a catalogue with printed list prices which applied to the independent oil company. The major oil companies received a discount of list prices less 20%. The ordinary jobber or wholesaler (nonstocking) received a discount of 20% and 10%; and a stocking jobber, usually with a territory partially exclusive, received list prices less 20% and 20%.

Exhibit 4. REID COMPANY. Self-closing Barrel Faucets

Size	Catalogue list price	Price to major oil companies	Prices to other customers	
			Quantities *	Selling price
¾ inch	$1.30	$0.44	Lots of 1	$0.65
	1.10		Lots of 2–12	0.55
	1.02		Lots of 13–49	0.51
	0.96		Lots of 50–143	0.48
	0.90		Lots of 144	0.45

* Must be taken in one shipment.

36. WHITING CORPORATION (A)

Introduction. The Whiting Corporation was founded in Detroit, Michigan, in 1884 and was incorporated ten years later in Illinois as the Whiting Foundry Equipment Company. After World War I, the name was changed to Whiting Corporation. Originally established to manufacture foundry equipment, the company had expanded into several other industries by the addition of products and absorption of other companies.

In 1921, Whiting obtained control of the Grindle Fuel Equipment Com-

pany, which manufactured powdered coal plants. In 1922, the entire stock of the Swenson Evaporator Company, a manufacturer of chemical equipment, was acquired. In 1940, certain assets of the Quickwork Company were bought, allowing Whiting to begin the manufacture of a line of rotary shears, trimmers, and power hammers. In 1943, certain assets of the Douthitt Corporation were obtained with the acquisition of the manufacturing and sales rights of the Grey-Jensen spray dryer. In 1948 the business of Spencer-Morris, Inc., manufacturers of tramrail systems, was purchased.

Thus in 1951, the company offered a diverse product line. It manufactured complete foundry installations consisting of cupolas (iron melting furnaces), electric coke igniters, mechanical charging equipment, electric arc furnaces, buckets, ladles, pulverizers, annealing ovens, air furnaces, tumbling barrels, air purifiers, and dust suppressors.

In addition to the air purifiers, which had applications outside the foundry business, the company also manufactured a complete line of industrial electric traveling cranes ranging up to 350 tons in capacity. The Swenson division produced large chemical evaporators, dryers, and crystallizers as well as pulp washing equipment, spray dryers, and rotary vacuum filters used by the process industries. For the transportation industries the company manufactured jacks, drop tables, and hoists for locomotives; a locomotive spotter and car puller; and mechanical train washers and cross-over bridges.

During the 1930s the company entered the manufacture of several relatively standard and low-priced items.[1] By 1951 the company manufactured small standard cranes,[2] called E-type cranes; rotary shears, power hammers, and stamping trimmers, which were sold under the name "Quickwork," and electric chain hoists.

Prior to 1949 all Whiting products were sold by the same salesforce, except for a distributor organization selling Quickwork shears, trimmers, and hammers. In that year, however, it was decided to divide the sales activities of the company into two divisions, each to be headed by a vice president. The wholesale division by early 1951 was handling the company's relatively standard products which consisted of electric chain hoists, "Trambeam," "E-type" cranes, "Quickwork," and the "Trackmobile." The engineered products sales division sold the company's heavy equipment where extensive engineering was required. The wholesale division distributed its products through approximately 240 distributors who were called upon by 14 wholesale division salesmen. Of the 14 men, 6 were "application engineers" and were available to the other men or the distributors if difficult problems in the application of Whiting equipment arose. The average sale of trambeams

[1] The company had also experimented with products for the consumer market, manufacturing such products as home freezer units, and automatic furnace stokers. By 1950 these products had been discontinued.

[2] 12 tons or under.

was $10,000, of E-type cranes $6,000, and of a trackmobile, $7,950. Transactions ranged from $4,000 to $300,000.

The vice president in charge of the wholesale division, who before coming to Whiting had been a sales executive of a large electric appliance manufacturer, stated that the wholesale division's products required five types of distributors: The principal line, electric chain hoists, was distributed (1) through 115 to 130 mill supply houses, and (2) materials-handling distributors. The Trackmobile was distributed through (3) materials-handling specialists who differed from materials-handling distributors in that they limited their activities to a few products. Trambeam and E-type cranes were sold through (4) engineering specialists in material handling who also did all the designing of layout, installation, and erection. (5) Quickwork products were distributed through 25 machine tool dealers. In early 1951 the vice president believed the wholesale division sales volume might reach $7,000,000 for that year.

Sales of the engineered products division were made direct to the user or contractor by a field organization consisting of 30 sales engineers located in 12 district offices, 10 domestic agents, and 26 foreign agents (exclusive of Canada). Agents generally were limited to the sale of certain engineered products in definite territories. The products of this division required design to meet each customer's requirements and were fabricated only after firm orders had been received and general engineering approved. Sales comprised the bulk (85%) of Whiting's business and averaged about $1,600,000 per month.

Terms of Sale. In the early part of 1951, the vice president in charge of sales of the engineered products division was facing difficult problems arising from shortage of raw materials and component parts and a large backlog of orders. These difficulties were reflected in the terms of sale that the company was quoting to its customers. During the buyers' market in 1949, terms of sale were simple with fixed prices and definite delivery dates. By late 1950 and early 1951, however, conditions had changed so considerably that the company was required to quote terms which included escalator clauses, long delivery periods, and permission for the company to make changes in design and substitution of materials if forced to do so by the raw materials situation. Exhibit 1 shows in part a proposal made by the Swenson Evaporator Company to a customer.

In addition to the escalator clauses, the company was including conditions which allowed it to exceed the agreed upon delivery time if this were caused by unavailability of raw materials or a priority defense order were subsequently received. By the end of the first quarter of 1951, executives had found it necessary to include a clause to hedge on auxiliary equipment. Large customers frequently stocked auxiliary equipment and component parts, such as electric motors, for example, and thus they frequently specified these by

Exhibit 1. SWENSON EVAPORATOR COMPANY (Division of Whiting Corporation)

Main Office and Works HARVEY, ILLINOIS (Chicago Suburb)

Proposal No. S-2718
October 12, 1950

Gentlemen:

We propose to furnish you:

One (1) Septuple Effect L.T.V. Evaporator complete with two-pass first effect, centrifugal separators, vapor piping, surface condenser with integral catchall, liquor flash system, live steam flash system, etc.; all in accordance with the terms, conditions and specifications of this proposal.

Selling Price ... $400,000.00
(FOUR HUNDRED THOUSAND DOLLARS) f.o.b. shipping point with freight allowed to Longview, Washington.

Shipping Weight --950,000 pounds.

Addition for providing precooler fabricated of $^3/_{16}$" thick Type 304 stainless steel . $2,190.00
(TWO THOUSAND ONE HUNDRED NINETY DOLLARS)

Addition for spare pump valves and additional stainless steel piping $3,500.00
(THREE THOUSAND FIVE HUNDRED DOLLARS)

Shipment:

Shipment to be made in about 10 to 11 months after receipt by us of approved assembly blue prints of equipment covered by this proposal. Assembly blue prints will be mailed to you in about 3 to 4 weeks after receipt of accepted proposal of purchase order accepting our proposal. Delivery promise is contingent upon receipt of full instructions and information which will enable us to immediately start shop construction. Any changes in design made after date of the proposal will be made at an additional cost and will of necessity influence the final shipping date of the equipment. We are not to be held responsible or liable for any loss or damage arising from nonfulfillment of contract by reason of fires, strikes, unavoidable accidents or any other cause unavoidable or beyond our control. This apparatus will be shipped "knocked down" to the extent we consider necessary for proper loading and shipment with small parts liable to loss or damage in transit stripped from apparatus and boxed.

Prices:

Prices are f.o.b. cars shipping point, which shall be Harvey, Illinois, unless otherwise specified. Prices quoted and shipments specified are for prompt acceptance and are subject to change without notice.

All prices are subject to the addition of any tax levied subsequent to the date of this proposal, which SWENSON EVAPORATOR COMPANY at any time is required by law to pay or collect by reason of the sale of the equipment and/or services listed.

The delivery promise included in our proposal is based upon our ability to obtain the necessary material to complete fabrication. We will use every reasonable effort to obtain this material, but assume no liability for loss or damage arising from late delivery or from nonfulfillment of contract due to our inability to secure material.

Due to the instability of costs, the prices quoted herein shall be adjusted upward or downward at the time of shipment to compensate for the increase or decrease in labor and material costs over those in effect on the date of the proposal.

For the purpose of adjusting price, 53% (fifty-three per cent) of the total price, excluding accessory equipment and transportation costs, shall be considered as *material cost;* and 27% (twenty-seven per cent) of the total price, excluding accessory equipment and transportation costs, shall be considered as labor costs.

The material cost shall be adjusted upward or downward by a factor determined by the United States Department of Labor Index for Iron and Steel Products. The factor shall be arrived at by taking an average of index figures from the date of this proposal to the date of final shipment, inclusive, then dividing this average by the index in effect at the proposal date.

The labor cost shall be adjusted upward or downward by a factor determined by the United States Department of Labor Index figure for the average hourly earnings of the Machinery

Exhibit 1. SWENSON EVAPORATOR COMPANY (Division of Whiting Corporation) (*Continued*)

Industry. This factor shall be arrived at by the same method as outlined for material cost.

Further, if the index figures for the month of shipment or any preceding month are not yet available at the time of invoicing, then the last available index figure shall be substituted for each month where such figure is not available.

Accessory Equipment. All increases or decreases in the list price of accessory equipment (which includes tubes, pumps, ejector, valves, etc.) occurring between the date of this proposal and the date of shipment appearing on the bill of lading, shall be added to or deducted from the total price of the equipment.

Terms: All payments, as below stated, except initial payment, are to date from date of Bill of I ading, which shall be evidence of shipment, and if all the apparatus should not be forwarded on the same date, prorata payments shall be made for partial shipments.

Payment to be made in U.S. currency at par in New York or Chicago.

Thirty per cent (30%) cash with order.

Fifty per cent (50%) cash on shipment and presentation of invoices.

Twenty per cent (20%) thirty (30) days from date of invoices.

Guarantee: We guarantee every part of apparatus delivered in accordance with this proposal will be of proper material and workmanship and agree to replace f.o.b. cars, Harvey, Illinois, any part or parts which may prove defective in materials or workmanship within one year from date of shipment, it being agreed that such replacement is the full extent of our liability in connection therewith. Unless otherwise stated we do not guarantee materials against chemical corrosion. The best engineering practice will always be followed and materials used will be clearly specified. When replacement of defective parts is requested, the defective parts shall be delivered at our Harvey works for our inspection and use if we so request. We shall not be held liable or responsible for work done or expense incurred in connection with repairs, replacements, alterations, additions or changes made except upon written authority from our main office at Harvey, Illinois.

In event that the said apparatus, after a thorough trial shall fail to conform to any performance guarantee made by this company, then and in such case said apparatus shall be returned to this Company, at its expense, and all payments that have been made to this Company shall be refunded, and this contract shall thereupon be terminated and all rights of parties hereto shall cease and desist.

Title: The title and ownership of the property specified in this proposal shall remain in the Company until the full and final payment therefor in cash has been made according to the terms specified Upon failure of the Purchaser to comply with his part of this agreement, the Company will have the right to enter upon the premises where said property is located and remove it therefrom without liability for damage to said premises or any other equipment or appliances to which said property may be attached or confined in, and in such case it is agreed that the Company may retain all monies previously paid, as and for compensation for the use of said property by the Purchaser.

Cancellations or Suspensions: Cancellations of orders placed with and accepted by this Company can only be made with our consent. Should a Purchaser request a suspension of operation after work has begun, it is understood that we may promptly render bill covering construction as far as it has progressed and that we shall be promptly reimbursed for all expense incurred, also for any increase which may occur in the costs of labor and materials in the period that work has been suspended, final delivery to be based on conditions prevailing at the time construction is resumed.

If shipment of this apparatus is prevented by order of Purchaser, we reserve the right to invoice same "as shipped" and payments shall mature from date of said invoices. In case of such delay in shipment, it is agreed that storage shall be at Purchaser's risk and expense.

Erection: Purchaser will assemble and erect at his own expense all apparatus covered by this proposal. We will furnish blue prints showing correct arrangement of parts.

Unless otherwise stated, no erection services are included in the price or prices quoted above. Upon receipt of proper order from Purchaser, however, we will furnish the services of a competent man to supervise the assembling and erection of apparatus covered by this proposal, also to instruct Purchaser's operator in the proper operation of same, at the rate of $40.00 per calendar day, plus traveling and living expenses while absent from our works, Harvey, Illinois; we to have no liability or responsibility for loss or damages caused by accidents, mistakes or delays during erection or operation. No inspection or other fees will be paid by us and Purchaser will make (at his own expense) all arrangements with local authorities for installation.

Approved Blue Prints: Upon receipt of order, we will prepare outline blue prints showing foundations and general assembly. Purchaser will check for building clearances and location

Exhibit 1. SWENSON EVAPORATOR COMPANY (Division of Whiting Corporation) (*Continued*)

of auxiliary equipment, returning one set to us properly approved or corrected. Any changes after approval will be made only upon written request subject to additional cost and possible delays in shipment of order.

Miscellaneous: We include all bolts, studs, nuts and special gaskets required for the assembly of our apparatus, and also all special merchandise we usually supply to users of our apparatus in your industry. We do not include lead and oil for making joints, neither do we include pipe lines up to or away from our apparatus unless otherwise specified. The Purchaser shall furnish and install without expense to us all necessary foundations, supports (except those which may be included in our specifications), working platforms, railings, stairways, etc., required. The Purchaser shall also supply and install without cost to us, any insulation covering needed for any part of our apparatus or for pipe lines leading up to or away from same.

Any and all controversies arising under or out of, or in connection with, or relating to, or for the breach of, the agreement of which this is a part, shall be settled by arbitration, in accordance with the rules, then obtaining, of the American Arbitration Association, and judgment, upon any award rendered may be entered in the highest court, state or federal, having jurisdiction in the premises.

Acceptance: Neither this proposal nor any modification thereof shall be binding upon us until the same has been accepted by you in writing and approved in writing by an executive officer of Swenson Evaporator Company at its general office at Harvey, Illinois.

Respectfully submitted,

SWENSON EVAPORATOR COMPANY
(Division of Whiting Corporation)

By_____

Accepted
(Date)_____

_____

By_____

Approved_____
SWENSON EVAPORATOR COMPANY
(Division of Whiting Corporation)

By_____

brand when placing an order with Whiting. The company felt compelled to include this clause since cranes, of which motors were a component, occupied such a large portion of the plant that they would tie it up if not shipped. Substitution of equipment without the part was essential to clear the plant for other production.

Recently, also, the company had stopped estimating on jobs under $5,000; on jobs of $100,000 or more a 25% down payment with the order was required. The company had at times lost jobs since competitors did not qualify their proposals to the same extent. Furthermore, there was a tendency among Whiting salesmen to make shorter delivery promises than actually was possible. Official proposals were all prepared in the home office of the company and the district offices were not allowed to alter them. The vice president in charge of sales believed that competitors could not offer much better delivery since they bought their materials and supplies from the same vendors as Whiting. By January, 1951, the company's backlog of orders was approximately 14 months. The company was quoting 10-month delivery since productive facilities were in the process of expansion.

In addition to customer pressure for more favorable terms, the vice president was subject to pressure from the salesmen. Since men received a bonus

based upon the volume of orders received and accepted, the salesmen tried to convince the executives to accept various orders sent in. Frequently, consummation hinged upon conditions of sale, and salesmen would repeatedly come to see the vice president requesting that the terms be changed slightly in order to obtain a particular order. The vice president was disturbed by this pressure and wondered what should be done.

The average base salary of salesmen was approximately $8,500 a year. The semiannual bonuses based upon sales volume beyond quota requirements averaged 25% of base salary. Executives believed that it would not be fair to the salesmen to alter the compensation plan at this time. Since the salesmen had been willing to work on a bonus plan during lean times when this plan favored the company, the latter should be willing to continue such a plan in good times when it favored the salesmen.

However, the problem persisted. Salesmen continued to request changes in the selling terms. Inasmuch as all the men were making such requests, making an exception in one case would not be fair to the other men. However, there were cases where exceptions to the policy were necessary. For example, General Electric Company never allowed any other motor than GE in its equipment. Thus, in the case of this company, a substitution clause was out of the question. Also, Whiting had instructed salesmen not to accept orders for gantry cranes since they required almost as much manufacturing space as two normal electric traveling cranes; but the company would make them as an exception for an old customer.

The Whiting Corporation was able to supply complete installations to its customers, particularly in the foundry field. In order to capitalize on this situation the salesmen generally tried to sell as large and complicated installations as possible, thereby eliminating from competition firms which were unable to quote on jobs of such magnitude. Since it would take several competitors to manufacture an installation which Whiting could make alone, customers had an added incentive to buy from Whiting.

A considerable amount of engineering, however, was required to prepare quotations on such large installations. In January, 1951, in addition to the backlog of orders, the engineered products division had a large backlog of inquiries requiring engineering service before a quotation could be made. Salesmen were constantly urging the home office to expedite these inquiries since they believed that many of the inquiries could be turned into orders. Executives recognized that an expeditious handling of inquiries was essential from a customer-relations standpoint. However, the trained engineering man power was simply not available in sufficient amount.

Executives of the engineered products division recognized that one solution involved drastic action such as materially reducing the number of items or raising prices, but such a course seemed unwise because they believed demand would decline in a few months. By that time, Whiting's capacity

would have increased and much of the nation's primary industrial defense expansion would have taken place so that salesmen might have to resume aggressive sales effort.

CASES IN BRIEF

1. An association of retailers of women's apparel and accessories was attempting to fight discount house competition by refusing to buy merchandise from manufacturers who sold the same items to discounters. Members were expected to place on their orders a uniform stamp which read: "This order is given and accepted subject to the following conditions." If the vendor sold any of the above items to a discount store or outlet directly or indirectly and with the manufacturer's label or stamp, manufacturer had the right to return any unsold merchandise for full reimbursement regardless of date of purchase. Among the present members of this retailers' association, 64% was said to have annual sales volume of less than $100,000; 29% between $100,000 and $500,000; and the remainder, between $500,000 and $1,000,000 of sales. The main items handled by 36% of the stores were dresses and blouses, 36% sportswear, and 21% handled other items including foundation garments, hosiery, and lingerie.

Was this approach likely to be effective?

2. American Motors Corporation and Studebaker-Packard Corporation in early 1956 engaged in a struggle to secure competitive advantage by offering free accidental death insurance in connection with the purchase of an automobile. Representatives of American Motors announced that they would give $10,000 accident life insurance policy to each and every new car buyer. Shortly after this, Studebaker-Packard announced that they would offer similar life insurance policies to buyers of Studebaker cars but raised the coverage to $20,000. American Motors then issued a new press release boosting its coverage to $25,000.

Should Studebaker follow?

Was the plan likely to be effective in promoting sales?

3. A group of toy manufacturers proposed to meet cut prices on popular nationally advertised toys and playthings by a special plan which extended to selected producers a guarantee in excess of $300,000 on a selected toy. The entire output of the plaything would go to retailers who were members of the group. All items were to be fair-traded according to existing state laws. The toy council would maintain a panel of wholesalers and retailers to decide which toys would be accepted by the group. The guaranteed volume would make it unnecessary for producers to seek outlets other than those designated by the council and would permit manufacturers to start production in dull periods. Records of shipments were kept and the manufacturers refrained from selling similar products in the same price range to competing stores. To police the lines, private detectives would be hired if necessary and representatives would be employed to report infractions. Membership in the council would be canceled if a retailer or manufacturer engaged in price cutting or rejected lines that did not maintain the price.

Should a toy manufacturer join the group, follow the policies outlined, and share the costs of administering the plan?

4. Can a publisher of titles in fiction and nonfiction sell its product through retailers at the full list price, less customary trade discounts, while selling to its own book club at substantially lower prices, although there were differences in binding and other details of book make-up?

5. A fuel oil distributor on the West Coast, feeling threatened by plans underway to pipe natural gas into the Pacific

Northwest, offered to guarantee for 10 years the delivery of fuel oil to any customer at a lower net per thousand B.T.U. than the rates to be charged for natural gas or electricity. The only conditions he attached to the offer were that: (*a*) the oil must be burned with a modern nozzle or pressure type burner; (*b*) the guarantee was void: if natural gas in commercial amounts was found in the state of Washington, (*c*) if development of nuclear energy brought lower utility rates, or (*d*) if wartime controls affected the price or supply of fuels or electricity.

Was the distributor wise in making such a guarantee in order to increase sales?

6. A biscuit manufacturer, in addition to offering 1% 10-day cash discounts, offered volume discounts to retailers based on average monthly purchases. If a store purchased under $100 of merchandise a month but more than $25, a 10% discount was granted; from $100 to $1,000 a month a 15% discount, and over $1,000 a 17½% discount. Chains usually secured the 17½% discount because purchases were in the highest bracket. In one highly competitive territory, the executives of a voluntary chain demanded the maximum discount for members because, in the aggregate, members purchased over $1,000 a month from this manufacturer. The products were not bought exclusively from any one source, nor were the voluntary chain executives in any position to force members to purchase from one source.

What reply should have been made to the request for the maximum discount?

7. Was a tire manufacturer justified in giving special discounts under contract to large national fleet owners and expecting dealers and distributors throughout the country to extend those discounts in accordance with that contract?

To what extent was the company warranted in meeting retailer discount prices in its discount offers to employees?

8. In a recent meeting of the American Supply and Machinery Manufacturers Association and the National Supply and Machinery Distributors Association, it was argued by one manufacturer that all manufacturers in the field should change from quoting multiple discounts requiring "higher mathematics" to apply, thus distracting salesmen from selling, and to substitute net prices for their products. He described a complicated process of six time-consuming steps required now to enable a salesman to quote a price of 17 cents on a product and contrasted this waste of time with the need for more time spent on quoting net prices to potential buyers. "Let's eliminate this hocus-pocus of list prices and chain discounts under old pricing systems."

Is the proposal sound?

9. In order to meet the lower prices of so-called "shortline" drug jobbers, the president of the Midwest Drug Company proposed to offer a 10% discount off list upon 5,000 proprietary items—about 10% of the total lines carried—provided retailers purchased in at least one-dozen lots. The usual cost to the Midwest Drug Company for such items was list less 15% and 2% for cash within 10 days.

Should the proposal have been adopted? Could the Midwest Drug Company expect to make a profit upon the cut-price items?

10. Customers of a food manufacturing company were in increasing numbers taking cash discounts on purchases, although remittances were being made 12 to 20 days after the date of invoice rather than strictly within the 10-day limit, as prescribed by the 2% net 30-day terms.

Should the executives of the food company take action to secure strict adherence to price terms? If so, what should be done?

11. A company manufacturing automotive lighting and safety signals for trucks and cars quoted the following terms:

Cash discount: 2% 10th proximo, net 30 days.

Minimum billing: 10% service charge on all shipments under $5.

Freight allowance: Full freight will be allowed on shipments weighing 100 pounds or more unless indicated to the

contrary. All shipments made f.o.b. our plant. To obtain freight allowance, deduct from face of invoice and attach to check the original copy of paid freight bill. Carrier at seller's option unless customer pays transportation.

Price changes: All prices are subject to change without notice. Orders will be billed at prices in effect at time of shipment.

Orders: All orders taken subject to acceptance at plant.

Returns: Return shipments will not be accepted unless by written permission and are subject to 10% handling charge. Returns other than for manufacturing defects must arrive freight prepaid within a specified period.

Claims: Claims for shortage must be made within 5 days of receipt of goods. Claims for damage in shipment should be made directly to the transportation company. We do not ensure delivery or safe carriage of goods. The carrier recognizes the liability and invariably allows full amount.

In the price lists, the company quotes the model number, the amount of the item or the replacement part, the list price, suggested dealer prices, first as to price in units and second a quantity price, then standard quantity in which the products are packed; and finally, wholesale distributor prices as unit prices and in quantity purchases. For instance, one switch is quoted at $3.55 list and suggested dealer prices are $2.56 and $2.13, and distributor prices $1.71 and $1.42 in quantity.

What margins does the manufacturer provide in his suggested price for distributors and dealers? Are the terms quoted above acceptable to small as well as large buyers?

12. *Are the following arrangements within the law as far as the Robinson-Patman Act is concerned?*

Pineapple products: Cash discount 1½%. $5,000 per annum additional compensation for window and counter displays and advertising paid by check monthly. Such displays to be made on fountain back bar and all stores and also signs on the back bar marker.

Food canner: 5% on net purchases if quota of $6,000 per annum is reached.

Tooth paste manufacturer: 10% on net purchases; provide feature listings in papers also to be featured in circular advertising, window displays.

Cosmetics manufacturer: 5% on excess over $33,000 on purchases of certain preparations. 5% on excess over $110,000 on other preparations. Window and counter displays 2 weeks each month in all stores.

Confectionery manufacturer: 2% cash discount, 4 cents per box on candy placed permanently on special metal candy display racks in one district.

Paper product: 1% cash discount, $400 per month advertising allowance to be supported by tear sheets, minimum allowance 10% of net purchases, billed at local rate.

Pharmaceutical manufacturer: 1% cash discount, special allowance 9% and 3% on all products. Conditions on prominent window and counter displays and wrapping counters.

Soap manufacturer: Regular discount 10% on some items and free goods, 15% on other items, 2% cash discount, special allowance 50% per store per month. Special free goods with one product. Checks monthly for cash allowances for featuring soap company products in approximately 130 papers, occasional special promotions and mention in circulars.

13. *Was a manufacturer of air conditioners wise to adopt a plan to buy back from dealers any excess inventories resulting from adverse weather?*

Too cool weather in 1954, together with a range of new makers into the expanding field, brought excess 1954 inventories variously estimated in the range of 750,000 room units which had to be carried over. Extreme price cutting developed as the result. The 1955 carryover to 1956 had been estimated at much more comfortable levels, 150,000 to 175,000 units.

What problems were involved in executing such a return plan?

C. SPECIAL SELLING TERMS; CREDIT TERMS

The quoted price with its discounts does not in many situations tell the complete price story. There are many special terms, such as consignment, guaranty against price decline, and geographical pricing. The last of these is currently in the public eye as the result of far-reaching decisions in which the element of conspiracy among sellers has been augmented by a doctrine of "unconscious parallelism of action" which tends to confuse both businessmen and objective students of pricing policies. Practical identity of prices in a buyers' market may be the result of monopolistic agreement but it may, on the other hand, be the outcome of keen competition in an active market.

Consignment. The term consignment is applied to the practice of making shipments of goods to persons who may or may not have consented to such shipments but whose purchase in the legal sense of the term is not made except under certain conditions. The consignment arrangement may provide that the consignee buy only those goods he desires from the consignment, the title to the rest of the goods remaining with the seller, unsold or unused goods to be returned to the manufacturer without obligation on the part of the consignee. Frequently used in certain types of business, consignment may be justifiable; it may, on the other hand, be utilized in such a way as to constitute an uneconomical, wasteful, or undesirable practice. Buyers, particularly when they are in fear as to future developments, may be overcautious and may be induced by consignment terms to have goods on hand so that when calls are received they will be able to fill demands. Or buyers may not wish to carry a sufficiently full stock to meet all demands in terms of sizes, colors, and styles; with consignment terms the responsibility of carrying such a stock is much less. Consignment methods are used by the large electric lamp producers as a means of maintaining prices; since stocks are owned by the manufacturers, they are in a position to insist that they be resold at stated prices. However, the dealer does not ordinarily take the same interest in consigned goods as in goods which he purchases outright. Consigned goods are likely to be left without proper attention, or they may be returned by the dealer long after the style or design has changed, the manufacturer thereby incurring large losses.

Leasing Terms. Much less common are leasing terms. Like consignment, leasing does not involve sale although it does look forward to ultimate sale and payment. The lease provides for the use of equipment, particularly of machinery equipment, under conditions whereby the lessor makes periodical payments in return for the use of such equipment. The most notable example of lease terms is furnished by the United Shoe Machinery Corporation, which leases machinery to shoe factories in return for a periodical payment based on the number of pairs of shoes manufactured.

From the viewpoint of the manufacturer, the objective of leasing terms is to increase the utilization of machinery by making it more convenient for those who have ability but little capital to enter into business. It simplifies the selling program because the buyer is not compelled to weigh the expenditure of a large sum for equipment but considers only the payment per unit of production or per period. Theoretically, also, the manufacturer or lessor of the machinery can keep that machinery in working order and replace it with more up-to-date machinery as often as he pleases; practically, as the volume of machinery on lease increases, there is more and more of a dead weight upon the manufacturing company, which may tend to retard the introduction of new methods and new machines.

Guaranty against Decline in Price. In many trades, the practice has grown up of guaranteeing buyers against loss through decline in prices below the prices quoted in the order. Such guaranty is of special importance in the case of goods purchased for future delivery, in which purchases are made a considerable period in advance of the selling season for which they are intended. In the shoe, textile, and canning trades, the purchasers are accustomed to gauge the extent of their operations by means of orders on hand. Future orders are not willingly placed by many retailers, unless there is some guaranty that they will secure the benefits of any decline in price which may take place between the time of placing the order and the time when the order is shipped. The terms of the guaranty offered by concerns may vary. Some concerns guarantee the prices upon the orders taken for future delivery against their own decline in price up to the date of shipment. A few companies extend their guaranty beyond the date of shipment to the time of the sale of the goods by the dealer.

The first reason advanced in favor of this policy is that, without such guaranty, future orders are difficult to secure. This is particularly true of the periods in which there is a considerable degree of hesitation and waiting on the part of buyers. Those dealers who are too timid to place future orders, or who are unwilling to take the risks involved, may be induced to make further commitments if they are guaranteed against losses due to a change in price levels. Furthermore, where orders have been placed and there develops a period in which it is fairly evident that prices may decline, the tendency toward excessive cancellations is decreased if there is a guaranty against price decline.

From the viewpoint of the manufacturer, securing orders for future delivery enables him to make manufacturing plans which are probably more in accordance with actual consumer demand than might be the case if no inducements were made to secure future orders. And, while the manufacturer who guarantees against price decline assumes a serious financial risk in the case of such decline, the loss through such guaranty may be considerably less than the loss which would be incurred if he should plan operations with-

out guaranty. From the viewpoint of the wholesaler, the guaranty against decline makes it possible for him to relay the guaranty to retailers in an inducement to purchase. Thus, the guaranty tends to keep stocks in movement, to maintain stocks in periods of hesitation, and to meet normal demands when stocks might not be maintained if the additional risk of fluctuation in price were not to be assumed in part by the manufacturer. Against the price guaranty is, of course, the great financial risk. A concern which sells a large amount of goods on a declining market may find itself confronted with serious financial obligations at a time when its resources are strained by other adverse developments. In a period of declining prices, therefore, there is the distinct tendency under the guaranty for the manufacturer to retard price reductions. On the other hand, in periods of rising prices, future contracts made at a fixed price tend to slow up the advance in prices.

The forms of credit terms which the manufacturer may extend are sometimes of great importance in determining whether or not a particular manufacturer is able to secure orders. Since most business is conducted on the basis of credit, the terms which the manufacturer will choose as a basis for his operations will help or handicap him in competition for business. The first question which he must decide is obviously that of whether he shall extend credit or not. If credit is customary in the trade, he may find his market narrowly limited by failure to extend credit. He will find, furthermore, that only by offering other advantages can he get over the hurdle of a no-credit policy. The alternative policy, if no credit is to be extended, is that of shifting the marketing of the product or financing of sales to other agencies. Credits may sometimes be guaranteed by insurance companies, loans may be made against receivables by banks, although in all cases some credit risk will be assumed if the enterprise markets its product. The only reasons for adopting a no-credit policy in an industry in which credit extension is general are likely to be either lack of financial resources or unwillingness to assume credit risks.

To those who desire to extend credit, the essentials of a satisfactory credit policy are briefly formulated: to extend credit required by desirable customers so as to stimulate sales while keeping credit risks or losses within narrow limits; to take risks only when the company is able to assume them and where experience shows that the volume of profits to be gained by taking such risks is in favorable relation to average losses.

The importance of credit terms in stimulating sales needs careful appraisal. To those whose credit is good and whose custom involves small risks, the offer of liberal credit terms is likely to be translated into a demand for larger anticipatory discounts. On the other hand, the extension of the length of the credit term may help the manufacturer to secure sales in seasons which otherwise would be dull and may offset peak periods in which prompt de-

livery is required under difficult manufacturing conditions. It is not possible here to go into the nature of credit or the considerations affecting the length of credit terms. It is necessary only to point out that credit terms, whether long or short, and the forms of credit extension, whether on open account, on acceptance credits or otherwise, have a distinct bearing upon the acceptability of the sales proposition to the buyer and thus need to be considered in conjunction with sales policy.

Partial Payment Plans. Partial payment terms of sale have become an important consideration for many manufacturers, wholesalers, and retailers, particularly for those engaged in the manufacture and sale of more expensive commodities. Installment selling, as it is usually termed, refers particularly to the form of credit terms whereby a buyer makes his payments on a large purchase in definite amounts at definite intervals. Usually a partial payment plan includes a down payment of some size and smaller payments monthly or weekly. Usually, also, the sales are made as conditional sales, so that title remains with the seller until the last payment is completed. Partial payment plans are particularly prominent in the automobile, furniture, and musical instrument trades, but examples are to be found in a great many different types of industries. Extension of the plan to its present vast scope is a development of the past 40 years.

Partial payment plans are of several types. Some of these plans provide for the extension of credit to the consumer in connection with his purchases. Other plans are intended to help the dealer, who in turn extends credit to the consumer, while others refer particularly to the wholesaler. All these plans usually provide for conditional sale with repossession of the article sold if payment is not made. Special financing companies undertake to finance dealers and consumers. Where financing is done through these companies by dealers, the dealer ordinarily assumes a part of the risk through the contingent liability for payment to the finance company.

From a business point of view, installment selling possesses both advantages and disadvantages. It possesses the advantage of permitting the sale of industrial goods to other producers or traders without the requirement of immediate payment; it may increase volume without affecting the rate of margin or expense particularly. The extension of installment credit to the retailer likewise may not be undesirable. The controversial question from the business viewpoint is the justification of installment credit extension to the consumer on consumer goods. If the consumer is induced to purchase more than he would otherwise purchase because credit terms are available, the manufacturers will benefit temporarily; if the result is merely to speed up the purchases so that, instead of a steady flow of purchases over a long period of years, many more purchases are made over a period of a few years, the effect may be that of increasing the distributive organizations and increasing productive activities to a level which cannot be maintained over a long

period. There is some reason to believe that this has been the case in the automobile and radio industries. On the other hand, the installment credit system has apparently shifted the nature of purchases of consumers from many small things to a few large purchases which may or may not give more satisfaction to the consumer. More important economically is the possibility that installment credit may have increased the vulnerability of the economic system to fear. Installment credit, except that based upon housing accommodations, has usually been most fully developed in articles which were not among the prime necessities of life. As a consequence, installment industries are those which are most largely affected by a change in the psychological attitudes of the public.

Less important in total, but nevertheless presenting problems in certain industries producing specialized equipment, are leasing terms, such as those employed by International Business Machines Company for its punched-card control equipment, by the United Shoe Machinery Corporation for shoe machinery, and by others. The case either for or against lease terms is by no means conclusive either from the point of view of the seller or from that of the buyer. Possible larger net returns to the seller, greater stability of return, and control of the market are to be set against advantages of lower capital investment for the buyer and continuous technical service. Disadvantageous to the seller are mounting investment, high prices for quick amortization, pressures against introduction of new products which would require wholesale replacement of leased machines. Finally, the buyer may have reason to object to higher annual costs than for outright purchase. Lease terms have been the subject of broad-gauge litigation in several cases, but the questions at issue have usually included those of monopolistic control, on basis of both patent rights and lease terms.

37. STRATFORD COMPANY. Distribution of Paint on Consignment Basis to Marine and Aircraft Trade

During World War II, the Stratford Company, one of the country's largest manufacturers and distributors of paint, had become increasingly aware of the large sales potentialities of the marine market. The company had been one of the principal suppliers of paint to government and private ships during the war and hoped to maintain a large portion of this market in the postwar years. In investigating the distribution methods of the marine trade, it was learned that the normal procedure in selling to ships required the manufacturer to consign his stock to ship chandlers who assumed the responsibility for providing 24-hour service, 7 days a week, to the ships. The Stratford Company had never permitted any business on a consignment basis and was extremely reluctant to establish such a precedent. In March, 1946, Mr. Chester Norris, head of the railway and transportation department, was considering other means of distributing paint to ships.

The Stratford Company was organized in a middle-western city in 1866 to sell paints,[1] oils, varnishes, and glass at wholesale and retail. In 1873, it began the manufacture of paint and from the outset attempted to produce high-quality products. The company was incorporated in 1884, and the growth of business had been steady so that its annual sales amounted to over $100,000,000 in 1945 and the business transacted daily exceeded that of the entire first year. Its employees numbered over 9,000, and its products included paints, varnishes, colors, stains, enamels, lacquers, white lead, chemicals, linseed oil, insecticides, disinfectants, cleaners, polishers, and allied products.

The company divided the country into 8 sales districts with a manager for each and further subdivided the districts into 33 divisions. The company's distribution organization included 350 wholly-owned retail outlets and about 45,000 independent agents and dealers throughout the United States and several foreign countries. The transportation department business was divided into two parts, one part being handled through the 8 sales districts and their divisions and representatives; the other, which was by far the larger portion, was handled by 14 especially trained salesmen who sold the entire line to the major transportation accounts. All 14 men reported directly to the head of the transportation department, whereas other representatives handling transportation business received their instructions and reported through the 8 sales districts and 33 divisions.

Stratford had 15 large plants and 100 warehouses, company-owned and leased, in every principal port on the East and West coasts, and a total floor space of 2,500,000 square feet. All the Great Lakes marine trade was handled from the Cleveland port where the company had adequate warehouse space. Since the particular paint requirements of the ships were unknown until they docked, considerable space was often required in order to have all the necessary types on hand. The ships used many kinds of paints, varnishes, and enamels for both topside and bottomside. There was also some sale of brushes, ladders, and cleaners.

Competitive paint manufacturers sold to most ship chandlers on a consignment basis, and these chandlers refused to handle Stratford products on any other plan, but the Stratford Company employees had been absolutely forbidden by the management to do any consignment selling. It was felt that

[1] Paint may be divided into three main classes: (1) the usual house paints, (2) enamels, and (3) synthetics. In any paint there are three basic ingredients: (1) pigments, (2) linseed oil, and (3) turpentine. The pigment is a powder substance, usually oxides and carbonates, and is designed to add color to the paint and protect it from deterioration from the weather. The linseed oil is ground together with the pigments and serves to make paint adhesive and to disperse the paint evenly. The turpentine is used when the paint is too thick to handle and requires thinning. Enamels are made in a similar way except that the vehicle, instead of being straight oil, is composed of resin and oils cooked together.

any departure from this practice would undermine the company's selling policy. In addition to maintaining a consistent selling and price policy, the company was anxious to control its promotion activities which would not be possible if it sold on consignment to ship chandlers. Moreover, with its own warehouses and sales organization, the company was better equipped than most to sell without resorting to agents.

The ship chandlers, however, had proved to be a very successful selling outlet because they could get the product to the ship quickly. This was extremely important to the ship's officers since they worked under a very pressing time schedule while in port. The ship chandlers also had developed valuable connections with the personnel of the ships and often were able to make additional sales by assuring the captain of an extra commission or other favors. The usual way of paying the chandler was a fixed fee per gallon regardless of the price of the paint.

The transportation portion of the company's business in 1945 amounted to 20% of total sales, but normally it was about 10%. Government sales during the war had boosted the percentage. The marine trade amounted to about 10% normally, but Mr. Norris believed that, if properly developed, it should represent about 30% of all transportation sales. Company officials felt that they had not had, previous to the war, as large a portion of the marine business as they should have had. During the war, they had obtained a large volume of marine sales as well as aircraft sales. The railway and transportation department was primarily responsible for large national accounts, and sales for use on pleasure craft were handled through the trade sales department. All government sales were handled directly from company headquarters. The total marine market in normal times was estimated to be between $5,000,000 and $6,000,000, but it would probably be larger during the postwar years. About 5,000 ships were under the control of the War Shipping Administration, and a somewhat larger number were under the control of private companies. One Liberty ship normally required between 4,500 and 5,000 gallons of paint. Between 400 and 450 gallons were carried on the ship for the deck department and between 50 and 100 for the engineering department which usually lasted about 6 months.

From the standpoint of the ships, the two most important considerations in purchasing paint were prompt delivery and standardization of product, that is, matching colors and quality available at all times. Even though the company's representatives made arrangements with the shipping concerns for the sale of their brand of paint at specified prices, the ship's officers would buy other makes of paint from the ship chandlers if the Stratford paint were not readily available. Therefore, it was essential for the company always to have immediately available any type of paint which the ship might require. Price was a secondary consideration for marine customers.

Mr. Norris, faced with the problem of how to distribute paint effectively

to the marine trade without resorting to consignment, proposed an alternative program of three parts: (1) The company's marine salesmen would intensify their selling activities with the shipping interests directly. (2) The salesmen would attempt to develop more business for small craft through the marine supply houses. (3) The company would try selling to the ships through agents who would handle the paint on a commission basis and draw their stocks from Stratford warehouses. Those agents kept in close touch with the operations of the ships and performed in much the same manner as manufacturers' agents.

Should consignment be adopted or should Mr. Norris' plan be tried?

38. PATENTED PRODUCTS COMPANY (C).[1] Licensing the Manufacture of Patented Product

The fastener division of the Patented Products Company licensed several of its products to outside manufacturers. Responsibility for handling this program was delegated to the manager of the licensee department who reported directly to the division manager. His responsibilities included recommending policies to be followed and selecting licensees after consideration of such factors as number, type of operation, production, equipment and capacity, product quality, distribution facilities, and management policies. His department negotiated the license agreements, and approved prices of repair parts for use in leased equipment. He was also charged with the responsibility of selling component parts needed by licensees.

Reporting to the licensee manager were:

1. As assistant who was responsible for understudying the entire licensee program, establishing and maintaining contacts with purchasing, planning, and production personnel of the licensees, and generally assisting the licensee department manager.
2. The executive engineer who acted as a clearinghouse for all mechanical problems in connection with production equipment on licensed products. He approached the production and engineering departments of licensee companies to determine the adequacy of their equipment and that it was properly used. He also represented the company in screw industry activities, particularly in connection with industry standards.
3. An office service supervisor who was charged with the responsibility of writing up licensee orders, handling related correspondence, and telephone contacts in connection with delivery dates, as well as managing the office procedure of the department.

The first item licensed by the company was a patented preassembled screw and lock-washer. It had been introduced to the trade in 1938; and in 1939 other manufacturers were licensed to manufacture it. By 1951, the company

[1] See Patented Products Company (A) for company background, p. 19.

had 30 licensees for the screw-washer assembly who paid a royalty on total production. Although permitted to manufacture their own equipment, licensees generally preferred to lease it from the company. Under the arrangements, the licensor was unable to cancel the license, whereas the licensee could do so on 60 days' notice; otherwise the license itself lasted for the life of the patents involved. Executives believed that full development of the sales potential of such products as the screw-washer assembly required licensees, since the industry was highly competitive. In addition the screw-washer assemblies were used primarily in assembly line work, principally in the automobile industry, and it would have been difficult to enjoy fully the potential market because large firms were unwilling to purchase assembly line products where only one source of supply existed. Furthermore, the policy of the company was opposed to becoming overly dependent on any one product. In periods of depressed business activity, it might be necessary to sell the screw-washer assembly at a very small margin of profit, while under a licensing arrangement, the company would continue receiving royalties.

A newly designed preassembled lock-washer and nut had been announced to the trade in October, 1950, through advertisements in *The Saturday Evening Post* and *Business Week* and early in 1951, several introductory sales had been consummated. At that time, executives of Division A were considering when the nut-washer assembly should be made available to licensees. Since there were fewer manufacturers of nuts than screws, they believed there should be fewer licensees on the nut-washer assemblies than on the screw-washer assemblies and that nut-washer assemblies should not be made available to licensees until the manufacturing equipment was fully perfected and most of the introductory sales work had been performed.

39. MIDWESTERN X-RAY CORPORATION

In 1955, Midwestern X-Ray Corporation executives were vitally interested in the problem of leasing X-ray equipment. They were trying to decide whether or not to adopt a proposal to lease X-ray installations, particularly to radiologists and other members of the medical profession as well as to industry. The increasing costs and prices following World War II had gradually become an obstacle to sales, especially to young radiologists and to smaller businesses which needed equipment for industrial purposes.

Two alternative types of lease were under consideration. The first was a broad service lease which included provision in the rentals for use of the equipment, costs of installation, repair, and maintenance as well as costs of insurance and taxes. The other form of lease covered installation and use of the equipment only.

The argument of the proponents of leasing consisted mainly of the probability of larger sales and eventually larger margins and profits. Both the

proponents and opponents realized that no more than an educated guess could be made regarding the installation time, the frequency and amount of maintenance service, the number of rectifiers and X-ray tubes needed for replacement as well as the value of the newer parts as calculated on a normal annual basis. The proponents of the leasing plan believed that the dangers of excessive calls on trivial matters or abuse of equipment were not great. Using these guesses, the assumption was made that the life of installation would average seven years, and rental rates were established on the basis of these assumptions. The advocates of the lease plan pointed out that the costs of complete installation for an X-ray specialist or radiologist ranged from $25,000 to $50,000, and even as much as $100,000, apart from other expenses for office and office furnishings. Furthermore, the radiologists probably had spent at least six or eight years in college or medical school with two or more years as an interne and in residence, making a total of ten years or more in preparation before setting up as an independent specialist. For these the lease possessed definite desirable features. A lease plan would enable the radiologist for a fixed rental figure to secure the equipment of his choice and to pay gradually for installation, repair, maintenance, tube costs, taxes, and insurance. He would be freed of the problems of depreciation or obsolescence and it would be expected that the services offered would keep apparatus at peak operating efficiencies. It was pointed out incidentally that the entire rental would be chargeable against operating expenses and that the substitution of expense for capital outlays might be desirable from the standpoint of individual financial planning.

The opponents tended to be more pessimistic about abuse and the amount of service for trivial reasons which the lessees would require. Furthermore, it was pointed out that, in case of war, many medical people might be called into service and equipment would have to be returned to Midwestern at substantial loss. The same results might come from drastic adverse economic changes. It was also pointed out that expansion of a medical program might result in a rate of use which would incur actual costs for service parts, labor, and replacement of tubes beyond what had been assumed. It would be expected also that there would be some cancellations of contracts. Whether the equipment returned after short or relatively longer periods of use would be saleable was still a question. Finally, it was pointed out that each individual lease involved risk of sickness or death of the lessee, which might result in loss of either income or medical practice, thus necessitating return of equipment.

Should the lease plan be adopted?

What problems were involved which appear not to have been considered by the executives?

40. SOUTHERN PAPER COMPANY

In the summer of 1952, F. W. Smith, credit manager of the Southern Paper Company of Atlanta, was examining his file on the Boone Printing Co., Inc., of Little Rock, to determine the course of action to be taken with regard to extension of credit. This resulted from a letter received that day from the manager of the company's branch office and warehouse in Memphis reading as follows:

> With reference to your letter of July 6 and my letter of June 16, indicating that we did not anticipate any difficulty in having the guarantee forms executed, my estimate was slightly in error to say the least.
>
> Mr. Boone has now advised that he does not wish to execute this form with us and gives as his reason that he does not consider it necessary. He further stated that if we insist he would transact his future business with us upon a cash basis or possibly go elsewhere for his paper needs. This seems too drastic for a customer such as Boone. Therefore, I have assumed the responsibility for sending out their current order of $750 and have instructed Mr. Arlen (a salesman) to pick up the Boone Company's check for the June item of $863.29. Mr. Boone claims this was past due because of an oversight in his bookkeeping department.
>
> I feel this account could develop into very nice business; I certainly do not wish to lose our advantageous position with them at this time.
>
> J. SHELTON
> Branch Manager

Mr. Smith noted that this account had been opened in 1948, at which time the order clerk of the Memphis warehouse had written:

> We have an order amounting to $495 from this company which you advised us under date of November 19, 1947, to be a cash-in-advance customer. We understand that there has been some change in their financial makeup. Please note their change of address. Kindly advise credit information.
>
> W. JONES
> Order Clerk

Mr. Smith reread the CIA limit which said:

> Very small, new enterprise engaged in job order printing. Sales and purchases largely on cash basis. Without satisfactory financial disclosures, this account must remain CIA November 19, 1947.

In September, 1948, Mr. Smith had received through Southern's depositary the following information:

> This confidential information is furnished at your request and ***without responsibility on the part of this bank or its officers.***

September 19, 1948

Mr. F. W. Smith, Credit Manager
Southern Paper Company
Atlanta, Georgia

Dear Sir:

The subject of your letter of the 12th is a printing company closely allied in operations with the Little Rock Bindery Company, T. C. Boone, Proprietor. These two organizations occupy common quarters. Mr. Boone is the dominant factor and principal at interest, the only other stockholders being Mrs. T. C. Boone and Mr. Adamson, plant manager.

The printing company employs about 25 men whose services are interchangeable between the two companies. Mr. Boone acts as sales representative and directing head of both organizations.

Our correspondent indicates that accounts are carried in both names at a local depositary and the relationships are described as satisfactory in every respect. Balances average low to high four figures and low to moderate five figures by the corporation and the proprietorship respectively.

The bank has accommodated Mr. Boone on loans up to $10,000 against his personal unsecured note. Financial details are given in confidence and consequently were not divulged.

Fixed assets of both companies are relatively small, mostly machinery and fixtures. This is occasioned by the fact that the property and buildings are owned individually by Mr. Boone and the value of these is not shown in the balance sheet of either organization. The only bank debt outstanding is a $10,000 mortgage against a new building recently completed.

Operations of both companies are described as profitable. It is recognized that payments to the trade have been somewhat slow. This is explained by the fact that the new building was constructed entirely out of working funds. The mortgage was not concluded until the building was complete.

Mr. Boone is well experienced and capable in his line. His integrity is not questioned and his bank of account regards him as being entitled to confidence.

Very truly yours,
CHARLES S. LANTRY
Assistant Vice President

Credit agencies approached could disclose only that the corporation had been established in 1947 under Arkansas laws.

Under date of September 27, 1948, Mr. Smith had written to Mr. Shelton as follows:

We have had difficulty in developing a full financial story regarding this customer. This is a new corporation organized by Mr. Boone, proprietor of the Little Rock Bindery Company. We understand that his brother will be in charge of printing operations. No financial details are available. Mr. Boone personally enjoys a good reputation as does the Bindery Company; however, since our customer is a corporation, Mr. Boone's personal assets cannot be re-

garded as a basis for the extension of credit. Accordingly sales should be on a cash basis until we are favored with a financial statement. If Mr. Boone has seen fit to invest sufficient funds in this corporation we see no reason why modest credit cannot be extended. His financial statement will, of course, give us this answer.

Do you want us to write direct for a financial statement or do you want to procure it yourself?

F. W. SMITH

On September 29, 1948, the branch manager had authorized an initial shipment of paper amounting to $578. Upon noting this balance on the end of month accounts receivable Mr. Smith wrote the branch manager informing him that such procedure was not proper. He received an answer that the invoice in question had been paid shortly after the first of the month and that no further shipments would go out until the promised financial statement, the expectation of which was the basis for the initial shipment, had been received.

On February 9, 1949, Mr. Smith received from the branch manager the following memorandum:

These people advise that they expect to issue a statement very shortly which will show net assets of more than $20,000. We will be glad to send this information on as soon as it comes to hand.

Although they are not very active at the present time they do expect to require large quantities of paper in the near future. It would appear to us that a credit limit of approximately $1,000 would be sufficient for the present.

J. SHELTON

Typically, the credit manager set a limit on each account and the branch had authority to ship up to that point. The next day Mr. Smith wrote the branch manager in part as follows:

I assume you recognize that your reference to net assets of more than $20,000 has little bearing upon the working means with which any concern redeems its current credit. For this reason we will find the financial disclosures promised most useful in affording customer credit accommodation.

F. W. SMITH

The following week Mr. Smith received the balance sheet for the year 1948 (see Exhibit 1). At that time he established a credit limit of $1,000. The account was handled well until August, 1949, at which time the limit was raised to $3,500. The account later ran somewhat in excess of this amount without Mr. Smith taking any action.

Mr. Smith had continued to permit credit sales to this account during this period because the sales department was particularly interested in developing the Little Rock area, heretofore unexploited. The May 31, 1950, balance of

Exhibit 1. Balance Sheet. Boone Printing Company, Inc.

Figures to nearest $1,000

	12/31/48	12/31/50	12/31/51
Assets:			
Cash..	3	2	1
Accounts Receivable- Trade (Net)	14	23	8
Work in process	1	4	1
Supplies...	13	12	10
Total Current Assets .	31	41	20
Machinery and Equipment (Net)	52	35	20
Total Assets	83	76	40
Liabilities:			
Accounts Payable	8	11	8
Loans Payable—Bank	11	.	4
Taxes Due and Accrued ..	1	1	
Accruals -Miscellaneous .		2	1
Loans Payable—Officers .		15	4 *
Total Current Liabilities	20	29	17
Capital Stock—Common—Par $50	50	50	50
Surplus- Capital		18	18
Surplus- Earned	13	(21)	(45)
Total Liab. and Net Worth	83	76	40

* Subordinated to Southern Paper Company.

the account was approximately $10,000. As Mr. Smith was reviewing the end-of-month outstandings he received a letter dated June 6 from the Memphis manager with regard to the Boone account. Mr. Shelton stated that he realized the account was considerably over the maximum credit limit. However, approximately $7,000 represented paper shipped in anticipation of a warehouse strike in order to permit the customer to continue operations.

On June 11, Mr. Smith wrote to the warehouse manager:

> In shipping paper without first obtaining credit approval, you have exceeded your authority. In the future please communicate with me before making any shipments to any customer which will bring the balance owing in excess of the amount of the credit limit.
>
> F. W. SMITH

On June 15, Mr. Shelton replied to Mr. Smith's letter:

> It would appear that we did not completely obey your instructions with regard to delivering paper to this plant before our warehouse struck. The only excuse we can give is that there was tremendous pressure on all of us just before the

strike to take care of as many customers as possible. Furthermore, telephone and telegraph service between Memphis and Atlanta was not particularly good about that time.

We considered this an emergency and acted accordingly. You will be interested to know that we have received a check covering the April items. This concern has had a very healthy and satisfactory growth for such a young company. We understand that all its principals are very highly regarded for honesty and integrity and we certainly want to maintain our position as its principal source of paper.

J. SHELTON

No balance sheet or income statement was received for 1949. After several months of writing, Mr. Smith finally received in June, 1951, a copy of the Boone Company December 31, 1950, balance sheet as drawn by the company accountant. Immediately he visited Little Rock and met with Mr. Boone. Mr. Smith asked Mr. Boone for a subordination agreement, which Mr. Boone at first refused. After a rather lengthy conversation Mr. Boone consented to sign a subordination agreement, admitting that the printing business was new to him and he was feeling his way. He disclosed he would not have gone into it at all if he had had to operate the print shop as a proprietorship. Mr. Smith was able to get a list of Boone's customers, most of whom were small companies with fair to good credit ratings. When Mr. Smith suggested billing the bindery company, Mr. Boone said that he wanted the corporation to stand on its own feet and he would rather not do this. It was at this time that the latter agreed to sign the form subordinating the $15,000 notes payable to himself.

From this time on the account was handled fairly satisfactorily, staying generally within the $3,500 limit, although at times running approximately 20 to 30 days slow.

In June, 1952, Mr. Smith visited Mr. Boone in an effort to procure the 1951 year-end balance sheet and income statement. Mr. Boone again, somewhat reluctantly, furnished him with only a balance sheet. A casual glance at the statement indicated to Mr. Smith that the item, notes payable to Boone, had been reduced substantially. He mentioned this was in violation of the subordination agreement. Mr. Boone did not seem concerned and explained that intercompany transactions between the printing corporation and the bindery company had reduced the debts. While not concerned about the account, Mr. Smith was perturbed that Mr. Boone had not seen fit to notify him of his intent to reduce this debt to himself.

When Mr. Smith broached the subject of supplanting the subordination agreement with a personal guarantee, Mr. Boone offered payment of the account in full. Since Southern had transacted a large and profitable volume of business with this customer in a still weak sales territory, Mr. Smith re-

fused immediate payment of the account but requested Mr. Boone to think over the matter for a few days and advise him of his final decision.

Mr. Smith returned to Atlanta through Memphis and related the entire matter to the branch manager, who when informed of the critical condition of the Boone Printing Company, Inc., agreed that it would be most advantageous to procure the personal guarantee of Mr. Boone. Mr. Shelton stated that the salesman of this account was on good terms with Mr. Boone and would follow up on this matter in a few days. No additional credit would be extended until Mr. Boone notified Southern of his final decision. Upon return to Atlanta Mr. Smith wrote Mr. Shelton confirming this decision.

It was shortly after this that Mr. Smith received Mr. Shelton's letter relating to the unsuccessful attempt to procure Mr. Boone's personal guarantee of the Boone account.

41. INSTALLMENT SELLING OF AUTOMOBILES

In 1946, the Planning Committee of the National Automobile Dealers Association brought a report to the Board of Directors, which was subsequently published, upon the importance of the special problems involved in installment selling, particularly those dealing with the growing effort of business to undertake financing of consumer purchases of automobiles. Sections of the discussion of this report in 1947 are given below:

> . . . the automobile dealer performs two basic groups of economic functions, the first being the retailing of automobiles and the second the retailing of parts, accessories, and service. We further stressed that to make the most of his economic opportunities and to provide a full service to his customers, a dealer will want to carry on both groups of functions. He rightfully expects to derive a profit from both.
>
> RETAILER OF FINANCE SERVICE
>
> Among the services the dealers have long provided automobile owners is the financing and the required insurance coverage. Thus, the dealer becomes a retailer of installment finance service just as he is a retailer of tires, radios, and other accessories and parts. As a retailer of installment service, he is entitled to fair compensation.
>
> We further stressed that there has always been an effort to eliminate the middleman. This is an ever present threat to retailers. Now this has made its appearance in the automobile field. It takes the form of direct loans to automobile buyers by local banks, so that their cars are bought for cash with borrowed money.
>
> Direct bank loans to finance consumer purchases of automobiles affect the dealer in the same manner as would direct sales of automobiles by the manufacturer to the consumer. The middleman is thereby eliminated and the producer takes over this function. In this case, the bank, the producer of credit, goes direct to the car buyers and the automobile dealer is there by-passed. The direct

entry of the banks into this field, after they had turned their thumbs down on installment buying for many years and left it to the dealer to find financing facilities, does not reflect a demand from automobile buyers for a change.

As evidence of this trend, several of our banks, including one of the oldest operating in the Installment Financing Field, already notified the dealers that hereafter all business will be handled direct with the public.

When a dealer sells an automobile and takes as part of the purchase price a title retaining note, he does not contemplate a repossession. Therefore, I stress again that collection effort is paramount in importance to all other services rendered by the financing agency which buys your paper. Few banks are equipped to give the collection service so necessary to insure the orderly liquidation of the note obligation. Banking regulations restrict certain functions a finance company is privileged to give, even though the bank may want to render these functions.

When the dealers' bank accounts are large, as most of them are now, the memory of difficult days is forgotten by the present-day easy profit, and it is difficult to impress upon them the importance of taking steps now to protect the installment sales market for the future.

Continuing with the figures released by the American Bankers Association, it indicates that the banks throughout the country now have $320,000,000 in direct automobile financing and $200,000,000 through dealers. In 1941 the figures given indicate the banks had $80,000,000 in direct financing and $55,000,000 of loans through dealers. As indicated, the trend of both of these figures has been upward, although the increase in direct auto financing has moved up more rapidly than financing through dealers. As an example of what this means translated in terms of income to the dealer, the $320,000,000 of direct financing taken at an average balance of $800 per deal, represents 400,000 installment sales contracts. At an average conservative reserve of $15 per contract, this represents $6,000,000 of net income which has been removed permanently from the dealers' profit picture.

Recommendations of the committee were embodied in a seven-point program designed to encourage dealers to keep control of the time sales market. They were as follows:

1. Remind the dealer that many of them have contributed to the probable loss of this business to the bank by exacting excessive reserves and insurance rates which sometimes reach usurious proportions, by the padding process. This practice is not countenanced by all finance companies but has been sufficiently widespread to have created a completely unsettled situation.
2. Educate dealers in the economic value of the retail function they perform by selling financing with necessary insurance to the car buyer.
3. To educate dealers in the importance to them of retaining the small profit they realize, through dealers' reserve, from the retailing of financing service.

4. To educate the consumer, through the dealer, in the desirability of securing his financing service from the same dealer who sells him his car, accessories, parts, repairs and maintenance service.
5. To make clear to consumers that when they finance through a bank, they are taking away business from their favored dealer just as much as when they buy parts and even cars from some other dealer. It will be well to remind the buyer that, should he borrow from the bank, he creates an obligation with that bank which will affect his further borrowing power capacity.
6. Show the customers that, when they finance through a local bank, they are getting less service than when they use the long established dealer finance company arrangement.
7. Remind the dealer that it is the usual practice of the insurance company which carries the risk through his regular channel of financing, to bring to the dealer for repair, any car damaged by collision. If the placing of insurance passes from the dealer's control, then the automobiles he has sold likewise pass out of his control when repairs are needed.

Is installment financing the function of the automobile dealer? Were the recommendations of the committee sound?

If a substantial portion of the dealer's income in the sale of new automobiles came from financing charges without his taking financing risks, was the public interest likely to be served?

CASES IN BRIEF

1. In June, 1939, the Universal Plastic Company received an inquiry from the Mark Company, a large manufacturer of stationery, novelties, and adults' and children's games, asking for quotations on various sizes of colored plastic disks ranging from ½ inch in diameter by $^{20}/_{1000}$ inch, to 2 inches in diameter by $^{60}/_{1000}$ inch in thickness. The Mark Company intended to package these disks in various sizes and colors and to sell them under its own name to chain store enterprises, jobbers, as well as to smaller game manufacturers. The Mark Company traveled several hundred salesmen in all parts of the United States and had developed and maintained a high reputation for quality and dependability of product. It was well rated, and its sales would enable it, in all probability, to purchase disks in lots of a million or more.

The Universal Plastic enterprise was divided into two general departments: one in which industrial purchases of plastic objects and parts were executed, the other in which consumer articles were manufactured and sold to chain stores, jobbers, and other purchasers, including game manufacturers. Disks for games had been manufactured and sold on a small scale to jobbers, particularly game, notions, drug, and novelty jobbers. Occasionally, the industrial department had filled an order from smaller game manufacturers. Both to jobbers and to manufacturers, Universal Plastic prices had generally been higher than quotations of certain competitors. Very recently Universal Plastic production executives had developed new processes for making and finishing disks which involved a large saving in materials, permitting quotations at least as low as those of competitors and lower if it appeared necessary in order to get business.

Quotations were duly made by the Universal company to the Mark Company. The latter then asked for price protection,

that is, for assurance from the Universal company that in selling disks to chain stores, jobbers, and game manufacturers, the Universal company would not sell at prices below those currently quoted by the Mark Company on disks purchased from Universal.

What policy should the Universal company adopt with regard to this request? What factors are involved?

2. In the case of Judson L. Thomson Mfg. Company v. Federal Trade Commission, the facts as found by the commission may be summarized as follows:

The petitioner is engaged in the business of manufacturing and selling tubular and bifurcated rivets, and in manufacturing, leasing, and servicing automatic rivet-setting machines for the setting of such rivets. Its business is interstate in character, and it is in competition with numerous other companies. Tubular and bifurcated rivets are sold to two classes of customers: in the industrial field where manufacturers use them in the assembling of their products, and in the carton or jobbing trade where they are sold through mail-order houses and hardware jobbers for replacement and repair purposes. Automatic feed-setting machines are usually used in the industrial field to set rivets. In the carton or jobbing trade, however, such machines are not used. There, some rivets are set in small hand feed machines and some in special brake lining machines. In the United States, there are eight companies engaged in selling tubular and bifurcated rivets and in supplying automatic machines with which to set them. At the time the complaint in this proceeding was filed, each of the eight companies was leasing machines on the condition that its lessees would not use such machines for setting any rivets other than those manufactured and supplied by the lessor.

The use of tubular and bifurcated rivets for industrial purposes began about 1889. Until 1914, the petitioner and the Tubular Rivet and Stud Company were the only companies engaged both in selling such rivets and supplying machines for setting them. It has been the practice with both companies to lease machines and not to sell them. At the present time, the petitioner and Tubular have approximately 8,000 and 7,000 machines, respectively, outstanding on lease. The Penn Rivet Corporation, which entered the field about 1914, has approximately 500 machines outstanding on lease and has sold in excess of 2,000 machines. The Edwin B. Stimpson Company started manufacturing machines about 1922 and has approximately 2,000 machines on lease and has sold approximately 300. The Chicago Rivet and Machine Company started supplying machines between 1924 and 1928. It has between 800 and 1,000 machines outstanding on lease and has sold in excess of 3,000. The remaining three companies which entered the field between 1927 and 1930 have approximately 300 machines outstanding on lease and have sold some 600 machines. Altogether the six companies have approximately 19,000 machines outstanding on leases. Substantially all of them are "tied" machines, that is, machines in which the lessee may use only rivets supplied by his lessor. The companies have sold approximately 6,000 machines since they have been in business. The petitioner as lessor of some 8,000 machines controls approximately 42% of the leased machines, or 32% of all machines in the industrial field. In 1939, the total volume of business done by the eight companies was about $5,180,000. Of this amount the petitioner and Tubular each accounted for approximately 25%, Chicago accounted for approximately 20%, and the remaining five companies accounted for 30%.

The petitioner confines its sales of rivets to the industrial field and does not sell to the carton or jobbing trade. To increase the sale of rivets, its practice has been to supply machines for use in setting them. These machines which it does not sell are leased at a yearly rental of from $15 to $25 for the average size machine. These leases may be canceled on 10 days' notice by either party. If the lessee uses a certain number of rivets—usually from 150,-

000 to 300,000, dependent on the type of the machine—the rental is rebated. The petitioner does not charge for servicing its machines or, with the exception of disappearing-point anvils which wear out rapidly, for replacing parts. The prices for rivets charged by the petitioner run about 10% higher than the prices of similar rivets on the open market.

The commission found that the primary purpose of leasing machines is to enable the petitioner to sell tubular and bifurcated rivets with such machines. It further found that there was on the open market an ample supply of rivets for use in the petitioner's machines sold both by other companies which supply machines and by those which do not supply machines. Such concerns are precluded from selling to the petitioner's lessees by reason of the restrictive provisions in its leases The commission acknowledged the fact that the petitioner manufactures rivets of various sizes and shapes, many of them specially designed for special machines, but found that any competent rivet manufacturer could duplicate and supply such rivets. It referred to five concerns which manufacture rivets but do not supply machines. The gross sales of these concerns were some $475,000 in 1939 and were more or less confined to the hardware and jobbing trade in which rivet-setting machines are not used.

Was this leasing policy sound?

3. The Grocery Specialty Company was confronted with a problem regarding the sales terms granted to warehouses of chains. Chain stores which warehoused their products had been given a warehousing discount. On the other hand, chains which bought on the basis that shipment should be made direct to member stores were not granted such a discount. With the establishment of super markets in warehouses maintained by the chains, manufacturers were faced with the question of whether or not to extend the usual protection against decline in price of floor stocks carried in such establishments.

Buyers insisted that floor-stock protection in price declines which, like warehouse discounts, was not given to ordinary retailers, was justified in the case of the so-called superwarehouse which served the chain units in its district in addition to housing a super market for the retailer of foods on a volume scale. Executives of the Grocery Specialty Company believed that, if the request was granted, every retail store would be able to designate a floor or part of a floor of the retail stores as a warehouse and claim price protection for its goods. On the other hand, it was pointed out that no logical reason should exist for denying to a warehouse performing a legitimate wholesale function the price protection which had been accorded to wholesalers as a matter of course for many years by manufacturers.

What policy should have been adopted? What is the consumer interest in guarantees against declines in price?

4. The Florentine Macaroni Company had adopted the policy of selling its macaroni, 24 packages to the case, at a list price of $1.80 a case. It was sold in single cases to retailers at $1.80, although all deliveries were made to jobbers. The company maintained a small force of missionary salesmen who visited retailers from time to time and took orders for macaroni usually in so-called "special deals." Instead of granting quantity discounts, it was customary to give a certain proportion of "free" goods. If a customer ordered 6 cases, he received one-half a case free; that is, he was billed for 5½ cases. During the summer season when business was slack, it was customary to increase the discount so that with each order for 10 cases 2 cases were given free.

A representative group of macaroni manufacturers met in the offices of the Federal Trade Commission and made the following recommendation:

"That the giving of premiums or so-called free goods to the trade which in any way tends to influence the sale, or constitutes a reduction in the list price of such seller to all such class of buyers, be

declared to be an artificial practice of selling, an unfair method of competition, an unfair trade practice, undesirable merchandising practice and contrary to the public interest.

"The vote was affirmative except for one in the negative.

"The exception was suggested that this practice might be justified if the seller is compelled to adopt it in order to meet a similar act in competition. If, however, the judgment of the industry is correct and this is an unfair method of competition, a competitor need not himself adopt it in self-defense but may protect himself against it by invoking the aid of the Federal Trade Commission to prevent his competitor from using it."

What attitude should the Florentine Macaroni Company have taken toward this declaration upon the part of its competitors? Explain briefly.

5. A prominent cosmetics manufacturer was considering a proposal to offer a "special holiday" deal with free goods. It asserted that the offer would give the dealer an unusual profit. Dealers were to be advised to "order without delay and anticipate your entire season's requirements in advance." Sales were to be guaranteed by the manufacturer. The Christmas deal offered one dozen 35-cent size jars of cold cream and one dozen 35-cent jars of vanishing cream, with an order for 11 cosmetics items in quantities from 2 to 12. The assortment was to be paid at $46.35 list, less 40% and 5%.

Should the Christmas deal have been approved?

6. An industrial clock company encountered difficulty in developing its sales of recording time clocks for employees. The market for such clocks included a large proportion of firms having 10 or more employees. While the price varied with the size of the clock and the number of employees to be accommodated, the average price was $200 with a few models being sold at less than $100. To increase sales of the clocks, the manager of a prominent sales branch proposed that the company offer installment terms of 25% down payment, the remainder to be spread over a period of 10 months and to bear interest of 6% on unpaid balances.

Should the plan have been adopted?

7. Should a relatively small agricultural implement company discontinue its policy of helping dealers to sell on credit terms by accepting farmers' notes? Should it change its policy, reducing its prices 10%, and insist that dealers sell only for cash for farmers? To what extent should decision be based upon existing farm conditions?

8. To what types of products and to what types of buyers is installment credit especially adapted?

9. Is installment selling economically and socially sound?

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5. *Market and Sales Planning*

The difference between modern or scientific sales management and the older rule-of-thumb sales management lies particularly in the areas of sales research, sales planning, and sales control. Formerly, it was customary to sell the production of a plant or what had been purchased without careful study of the work which had to be done and the way it ought to be done. Salesmen were sent out with a valise full of samples but with no training that would help them to make the best use of their time. The sales manager was not in a position to help his salesmen, nor was he in a position to utilize advertising as another means of selling.

To plan sales operations before plunging into the work of selling the product is nothing more nor less than common sense. Planning of sales prevents costly mistakes and makes the sales organization more effective. Sales planning involves thinking before acting, and it is needed at every stage of the marketing process. Planning is needed to provide an organization which is adequate and yet not too large for the selling work that is to be done. Unless some planning is done, there will be too many or too few salesmen, too many or too few clerks or service men. Again, planning is necessary to enable work to be accomplished forceably and effectively by the sales organization. If advertising is to be used, it must be planned long in advance so that it will appear at most favorable times. If lines are to be developed, planning must begin often more than a year in advance of the offer of the line to retailers. In short, just as with research, planning on the basis of facts carefully considered and carefully gathered is required for every operation of the sales department.

Sales planning includes several steps. The first is to determine what facts are needed for particular sales decisions; the next is to collect such facts as are needed and are procurable; the third step consists in studying those facts and drawing conclusions therefrom; finally, plans are to be made on the basis of the conclusions which have been derived from the study of the facts, tempered by judgment and experience where the facts are insufficient.

There are at least three phases of planning work to which special attention is devoted in the group of problems presented in this chapter. The first is the general planning problem of determining the markets or portions of the market to be developed, both for the immediate future and for the longer run for which certain company plans have to be made. Such planning requires

the evaluation of markets as a basis for determining the nature, size, and characteristics of the task of developing a sales volume which will yield a profit. Furthermore, such measurement may contribute to the basis upon which actual performance of the sales organization may be appraised. The second phase of sales planning which rests in part upon this market information is that involved in setting up tasks or goals for the sales organization. The sales objectives which are set up must be in quantitative terms and must be expressed with such concreteness that they are meaningful to those in charge of the various functions of manufacture, sales, finance, and research.

The sales estimate in total and by major classifications of products may in the established enterprise be understood as a forecasting of performance. As a forecast, it may be used not only by the sales executive, but also by financial, purchasing, and production executives as the basis for arriving at a coordinated plan of operations. That sales estimate may be considered as an assigned task. It would then be used as a basis for the assignment of responsibility to groups and individuals within the sales organization. Inevitably the assignment of the task becomes also the setting up of standards by reference to which performance is to be judged.

Finally, come problems of geographical division of the sales task including the districting of sales territories and the routing of salesmen. The common element in all these discussions is obviously the individual or group buyer and the need for direct or indirect contact of such buyers for purpose of sales solicitation and sales service. But the task of soliciting at reasonable intervals each of these buyers effectively is an enormous one and must be broken down into manageable units if it is to be performed satisfactorily. On the other hand, there are many factors which complicate simple division into units of work large enough for a single individual. These complications appear in the cases themselves and in later discussions.

A. MARKET RESEARCH AND PLANNING

The new enterprise seeking to market its products, as well as the established firm seeking to maintain and develop sales, both plan sales operations on the basis of executive understanding of market facts. That understanding of market facts may actually correspond to existing facts, but too often sales executives use hunches, guesswork, and erroneous assumptions in making market decisions. The need for conscious and definite effort to acquire and use market facts in planning is being recognized more and more generally among businessmen, particularly among sales executives.

The changes in marketing structure and function during the nineteenth and twentieth centuries have not altered the essential fact that producers and consumers are separated in an industrial structure composed to a considerable degree of large-scale enterprises which cater to large numbers of more or

less geographically dispersed buyers. The development of general and specialized wholesale institutions, the introduction of various types of intermediaries between manufacturer and wholesaler, the rise of newer types of wholesaling and retailing institutions, the continued expansion of large-scale industries, and the development of large-scale distribution organizations have added to the efficiency of the performance of many necessary functions. They have added also to the complexity of the market structure and to the complexity of the sellers' problems involving demand, whether that demand emanates from industrial or intermediate purchaser, or from ultimate consumer. That increased speed of communication and distribution and the tendency to decrease the number of middlemen by integrating marketing institutions in large-scale enterprises have not solved the problem is apparent after brief reflection, for the consumer demand for goods and service has likewise kept pace with these developments.

The need for greater knowledge of consumer demand and of markets is shared by all sound business enterprise. The manufacturer needs adequate information of many types if he is to operate most satisfactorily. The length of the production process compels many manufacturing businesses to start planning for production months in advance of the time when the consumer expresses clearly his preferences or dislikes for products. In the men's clothing industry, it is necessary to plan styles or factory production several months previous to the beginning of the selling season. The process is shorter for production of women's garments. Fabric producers must plan for new fabrics several months in advance of the purchase and manufacture by garment makers. To get a new design of an automobile into production may take 2 years or more. To develop new machinery, it is customary for seasoned production managers to double or treble the most conservative estimate of time which those working on the task of development may give. While production processes have in a measure been shortened and production organizations have been made more flexible as the pressure of rapid change has taxed the ingenuity of management, the fact remains that the fullest realization of present production techniques requires preparation and time for production in advance of any concrete expression of consumer demand. Market knowledge is essential but at best inadequate.

Likewise upon the basis of inadequate market knowledge, retailers, wholesalers, and other middlemen must choose goods made available by manufacturers or special types of middlemen. If they deal in consumer goods, they must choose products which consumers want and must likewise have the goods ready for delivery in the quantities required and at as low prices as are consistent with certainty and stability of supply. Furthermore, consumers' desires must be predicted with at least a moderate degree of success if the business is to succeed. The need for research to improve the accuracy of those predictions is obvious to every student of marketing problems.

Transportation enterprises likewise have found that change in price and that improvements in service to meet consumer desires have been profitable, and they have learned that they need information about consumer demand and have begun to question the public in detail to acquire that knowledge. Financial enterprises which aim to supply capital to other business enterprises have found that the soundness of financing factories may be intimately bound up with the trend and stability of market demand. Commercial banks have learned, at times to their sorrow, that the extension of loans to industries marketing products for which consumer demand is declining may prove unsound. Greater knowledge of the basic requirements of markets would obviate many banking errors.

The market research with which the sales manager deals is exemplified not only in this group of problems but in other problems throughout the volume. It is concerned particularly with studies of consumer and industrial demand, both from the standpoint of those factors which enter into projected immediate action as well as to long-range expansion, contraction, or change in the broad plans of business which may result from changes in demand. Market facts are needed to provide the basis for current adjustment to changes in market and customer demands and, of course, market research is needed to furnish the basis for decision regarding products to be offered and programs to be developed in the solicitation of those markets. Nevertheless, there is no magic in market research in spite of the immature attitude of some businessmen who are enthusiastic but uncritical. More and more, businessmen are beginning to realize that market facts are complex, voluminous, and difficult to interpret, but they may no longer be ignored. The question which therefore generally confronts the business executive is not whether to use market planning and market research, but how best to make them serve his purpose at reasonable cost.

A useful distinction has sometimes been drawn between sales research and market research, based primarily on the sources of information utilized. Sales research is based upon the information found in the internal records and reports of an enterprise. A distinction is also sometimes made between market research and marketing research, market research referring to that research which deals with the evaluation of markets, and marketing research, the more general term, dealing with all research on the basis of either external or internal sources, which is directed toward securing facts to aid in making marketing plans and marketing decisions. Generally, however, market research is the term applied to the collection and interpretation of facts in which the source of information is external to business enterprises, that is, information secured from the market itself.

What facts are needed? It is obvious that in the collection of facts as a basis for sales planning some limit has to be placed upon the efforts to collect facts.

First, only those facts should be collected which are pertinent to the questions that have to be decided in making a sales plan. But it requires imagination to know what facts may be pertinent; for instance, in establishing quotas over a period it may be necessary to have information not only as to past sales but also as to the future of economic conditions and their probable effect upon the purchasing community. It may be necessary, further, to have facts concerning probable changes in buying habits. It does not require much thought to make it apparent that any broad sales problem breaks down into smaller constituent problems about each of which some facts may need to be collected.

As a second proposition, the sales manager will not deny that the facts that are pertinent, and therefore useful, should be in usable form. Many organizations have facts of utmost importance for those who are planning their selling work, but those facts are not in usable form. They are not collated; nor are they so located that they can be used in connection with the making of plans.

It is neither possible nor ordinarily necessary to collect all the facts which might bear upon the solution of a particular problem in planning. In the first place, it is not desirable because of cost; to get the facts about the buying habits of all the consumers of a particular commodity would be extremely expensive, if not impossible. Fortunately, it has been found by experience that a smaller number of facts, taken at random, or taken with care to assure impartial selection, yield the same conclusions, or essentially the same conclusions, as may be secured from much larger masses of facts.

Sources of Market Information. There are three principal sources of market information. The first is business itself, including in that term both one's own business and other businesses, both allied and competing. Business records and personal contacts of executives with the market furnish information which no wise executive will ignore. Nevertheless, there is in many cases a tendency to overestimate the value of one's own experience and one's own contacts. Much market information relating to the practices and attitudes of buyers has not been developed or definitely formulated. Many experienced business and market executives know too many things which are not true. The sphere of observation and experience of most men engaged in business is relatively narrow. Furthermore, observations within a business made by businessmen are likely to be influenced by bias or by current attitudes toward competitors. Personal contact and experience may be enhanced and enriched by contact with other executives in trade associations and similar organizations.

The second chief source of market information consists of those compilations of knowledge and of fact which are available to businessmen in various forms. These sources are usually classified as library sources, although one should conceive of them as a collection of facts of more or less use to those

who are endeavoring to carry on market study. Useful facts may frequently be secured from books, government reports, trade journals, and other printed sources. Year by year the importance of printed sources of information is increasing. The day has passed when the executive in any sizable business can afford to ignore what such sources offer. However, there is a limit to the type of information which can be secured through desk or library research; the facts are mass facts and are available usually only on points which are of particular interest to general industry or to the public in general. The more detailed facts which may be of special importance to a given company are in many cases not available.

The third chief source of market information is the market itself. This should be regarded as the primary source, but there are difficulties in securing information from the market which render it of less value and which usually make it advisable to exhaust other sources before attempting to go direct to the market. In the first place, the market itself, considered as an organization of consumers or buyers, may be a source of doubtful value, for buyers may not know, or may not be willing to tell what they know, about their own buying practices, attitudes, and habits. Furthermore, buyers may not act as they say they will act. Turning to the supply side of the market, one finds that the information which may be secured about or from competitors in the market may be very limited or undependable. The market as a source of information may be too large to be studied at reasonable cost without employing the sampling method and careful selection. It is expensive to get scientifically valid sampling, while the results of questioning may yield only information already available. Nevertheless, techniques are in process of development by market research workers, psychologists, and others, which promise to give considerably more assurance in the use of the market as a source of information.

There are three principal methods of securing and collecting information in connection with market research. The first is that of personal contact with those who, directly or indirectly, are sources of information; the second is through correspondence, which may be more or less personal in its nature; the third is through reading.

Personal contact may be conducted by the sales executive directly, through employees responsible primarily for market research work, or by outside organizations which carry on market research for business enterprises. The interviewing method, which characterizes personal investigation, is in process of development, relatively little being known about the uses, technique, and limitations of the method in securing market information. Certain general advantages appear, however, upon examination. Contacts of competent interviewers are likely to yield more information than will correspondence. The competent investigator secures a greater number of responses in proportion to calls made than does correspondence in proportion to number of inquiries

mailed. The competent interviewer may make up for the defects of the plan under which he is operating and may incidentally gather information which is more important and significant than the questions which have been planned as the basis of the interview. Furthermore, while generally more expensive, the interview may conceivably be more economical per completed report than the cruder and apparently cheaper mail questionnaire method. On the other hand, personal investigators may not be competent; their work may not be well planned; they may not be conscientious or industrious. In such cases, the costs are high in relation to the value of the results.

A considerable amount of market research is carried on through correspondence, which ranges from the informal letter to an elaborately planned and printed questionnaire sent to a large number of persons. Most research workers tend to think in terms of questions presented to miscellaneous groups by mail. In order to secure any satisfactory proportion of desirable replies, it is necessary to select the list carefully, to formulate the questionnaire properly so that it may be answered easily and intelligibly, and to interpret the results in a manner scientifically consistent with the previous conduct and scope of the survey.

When the data have been collected, the work which remains to be done includes the testing of the data as to accuracy, adequacy, and quality. Next, the data must be so organized and arranged that they become useful for the purposes intended, because only then will they begin to have significance for the scientific worker. With adequate and pertinent data properly arranged, the stage of interpretation and conclusion has been reached. Many logical errors tend to creep in at this stage. There is a tendency to draw conclusions on the basis of insufficient or improper samples; there is danger that in drawing conclusions important considerations have been ignored or have been given insufficient weight. Another common fault is the failure to distinguish between data which represent fact and data which represent opinion. Moreover, there is the tendency to favor conclusions which meet with the preferences or prejudices of the investigator and of the executive for whom the investigation is made. Finally, research conclusions should be pertinent to the objective of the research project, to the needs of the business, and should be presented to executives in such a way as to enable them to be studied with accurate knowledge both as to what the accomplishments of the research have been and as to the limitations of coverage.

42. LYON MANUFACTURING COMPANY. Market Opportunity for a Wire Recorder

The Lyon Manufacturing Company, a subsidiary of A. L. Hughes & Company, was organized and built by the parent company during the war for the purpose of producing precision instruments for the Armed Forces. At the conclusion of the war and upon termination of its contracts, the com-

pany faced the problem of finding some peacetime product to justify its continued existence. The research, engineering, and production departments of the company made a number of studies of new products which were developed before and during the war and which had not been produced and distributed to any great extent by other manufacturers. The result was the selection of a wire recorder as best suited to the production facilities and capabilities of the company. Since the Lyon Manufacturing Company had obtained valuable experience in the production of precision instruments during the war the executives believed that this experience could best be utilized on a product such as the wire recorder. However, before the executives of A. L. Hughes & Company were willing to appropriate funds for the necessary production changes, some assurance that the venture had a reasonable chance of success was desirable.

The wire recorder was similar to the cylindrical and flat disc types and was used for essentially the same purposes, i.e., recording dictation, speeches, conferences, public addresses, and news dispatches. It was a compact unit about the size of a medium-sized travel bag and could be easily carried. It consisted of the recording mechanism, microphone, amplifier, speaker, foot control, as well as a spool of magnetized wire that could record approximately one hour of conversation. The recording could be played back for transcription, after which the wire could then be erased and used again. The wire could also be stored as a record and used when needed. According to company estimates, the wire recorder could be produced and sold for $248.

Upon selection of the wire recorder the company began preparations for producing and marketing the product. After the changes in the plant had been laid out on blueprint, detailed specifications were drawn up for the new equipment that would be needed; an industrial designer was engaged to prepare sketches of the proposed instrument, and a sales manager was chosen to develop a sales program. Finally, the company selected an advertising agency and outlined the first campaign of the program.

The final step in the development of the wire recorder was to secure from the parent company an appropriation of over $400,000 which would be used for tooling the plant, securing the raw material, and carrying through the other plans for producing and selling the product.

Before approving the expenditure of $400,000 by the subsidiary, the parent company was anxious to find out whether the market reaction to the wire recorder indicated that substantial immediate acceptance of the product could be anticipated to warrant the necessary investment. The company also wanted some appraisal of the competition that the recorder would encounter as well as the ability of the product to meet that competition. Since the subsidiary was unable to provide answers to these questions, the Lyon Manufacturing Company secured the services of Stewart, Dougall and Associates as market consultants to make the necessary survey. The charges for such a survey

were but a small fraction of the proposed $400,000 investment, and if the program had little chance for success and was abandoned, the saving would be substantial.

In designing the survey, the consultants and the company executives decided that the study should be limited to a quick appraisal of the market to determine the product's "market opportunity." If the findings proved favorable, they would make a more definitive study at a later date. The objective of the study was to determine whether the recorder had superior characteristics that would lead prospective buyers to prefer the Lyon wire recorder over other recording devices that were available to them.

The marketing consultants considered the following six possible fields of application for use of the wire recorder as a cross section of the market for this product:

1. Dictation and transcription of correspondence.
2. Transcription of orders or conversation on the telephone.
3. Transcription of the proceedings of meetings and conferences.
4. Recording and transcription of trial speeches, radio commercials, and the like.
5. Recording and transcription of public addresses and news dispatches coming over domestic or trans-Atlantic wires.
6. Home use, for private recording.

In order to evaluate the acceptability of the Lyon wire recorder in the above-mentioned six fields of application, the consultants selected New York City as the place in which interviews were to be held. It was known in advance that recording and transcription of sound played an important part in the business operations of many firms in that city. In the companies selected, the wire recorder was demonstrated to those individuals who were in a position to express authoritative views on the merits and defects of the recorder as it might be used in day-to-day work.

The companies selected for interviews included four firms that were dealers and distributors of radios, phonographs, recording machines and accessories; one professional architectural organization; four firms engaged in the coverage of news; three advertising agencies; and five large commercial and industrial firms.

The interviews were adapted to the needs and practices of the individual company in order that the potentialities of the Lyon wire recorder could be viewed in light of an actual application of the machine by each company. The interviews varied in length from one to four hours, and in each case an interested person was present. A copy of the questionnaire is contained in Appendix A. In all interviews, except those with dealers and distributors, the interviewer made comparisons between the Lyon wire recorder and the present equipment used in dictating and transcribing business correspond-

ence, recording telephone conversations, making transcripts of meetings and conferences, and recordings of public addresses and news dispatches.

In order to be fully informed regarding the existing competition in the field of recording, as well as to gain some knowledge of the possibility of developing a new product in this field, interviews were held with six companies that manufactured wire recorders and other types of recording devices.

The results of the interviews as reported by the market consultants, and the consultants' conclusions drawn from these findings, are contained in the pages which follow.

SUMMARY OF FACTUAL FINDINGS

In securing the reactions of potential users to the performance of the Lyon recorder, the interviewer treated the major fields of application separately in so far as possible. It was soon evident, however, that most of the applications had the common denominator of ease of operation, which made a complete segregation of each application impossible. Thus, regardless of whether the interviewers were considering the use of the instrument for dictation, recording telephone conversations, proceedings of meetings and conferences, or recording and transcribing news dispatches coming over the radiotelephone, it was necessary to consider the needs of the typist transcribing the recording.

Because of this common characteristic in the interviews, the striking similarity of the reactions to the Lyon instrument among the respondents, regardless of application considered, was understandable. For convenience, however, the consultants made some attempt to segregate the reactions to the Lyon wire recorder under the major classifications considered in the following sections.

1. *Dictation and Transcription of Business Correspondence.* In order to determine the advantages and disadvantages of the Lyon wire recorder in the field of dictation and transcription of business correspondence, the interviewers obtained specific expressions of opinions from office managers and heads of stenographic departments in the companies visited. Several advantages in the use of the Lyon recorder developed in these interviews.

The first of these favorable comments was on the superior qualities of the instrument in voice reproduction as compared with disc and cylinder recordings. However, the respondents made evident that, in office dictation by any device, good quality of reproduction was a necessary characteristic in operating the instrument. Tonal range or depth in music or song was important only for the transcriptions of auditions in advertising agencies or for purposes of voice training.

The second advantage brought out by the interviews was the ease of insertion and removal of the wire magazine. In each case this feature received favorable comments from the respondents.

The third favorable characteristic was the design of the Lyon recorder, which permitted reproduction of sound by either earphone or self-contained loud speaker. This feature in a recording instrument was highly regarded by all respondents, but the speaker itself was considered undesirable in a play-back instrument to be used by a transcriber.

A fourth advantage named by the respondents was the ability to use repeatedly for an indefinite period without special processing the magazine containing the spools of wire.

A fifth comment made by most respondents was that for purposes of office dictation and transcription, the tentative price of $248 for the Lyon wire recorder was quite reasonable and well within a competitive price range. However, in some instances, they recommended a play-back unit at a lower price.

A sixth feature commented upon by respondents was the ability of a person dictating to make corrections at the time of dictation by merely "erasing" the wire. Although this feature was considered interesting, it was not thought to be of any great importance. As a general rule, it was believed that the time of the person doing the dictating was more valuable than that of the transcribing typist. Furthermore, the respondents indicated that a considerable amount of resistance to this correcting procedure could be anticipated from busy executives.

As opposed to the above advantages to the Lyon wire recorder, the interviews brought out ten general disadvantages to the use of the machine in dictation and transcription of business correspondence.

The first of these disadvantages was the lack of precision in playing back a recording. The respondents held generally that the partial rewinding to a given spot on the recording was not sufficiently accurate to meet transcribing requirements. They found competitive instruments much superior in this aspect of the instrument.

In commenting on this feature, the head of the stenographic department in one large industrial firm stated: "There should be positive foot control to rewind the wire to an exact spot. With this hand switch you are never sure how far back you've gone. You have to play around with it too much." The head of the methods department of an oil company added: "Needs more accurate control of play-back features. It is essential that the transcriber be able to return at once to the exact sentence or two or three words which are indistinct. Time is important."

The second disadvantage of this instrument, in the opinion of the respondents, was the lack of any control over the speed of the machine. The Lyon instrument did not provide for control of the speed of reproduction, which enabled the transcriber to slow down to a spoken sentence so that a difficult or slurred word might be heard clearly even though it was in a lower key. This feature was especially important in office transcription, and most

respondents believed that a machine without this feature would be seriously handicapped in securing acceptance. Conversely, the respondents stated that the ability to speed up a recording was important to compensate for slow dictation and for blank spaces which occurred when the person dictating neglected to stop the machine when he finished dictating.

In commenting on this feature of the machine, the head stenographer of one firm stated: "Unless there is speed control, both to slow down the reception of too fast dictation and to speed up the reception of too slow dictation, the transcribing typist would be seriously handicapped. In many busy offices the typists are paid on a production basis."

A third defect of the instrument was the inability to select a particular portion of a recording to be transcribed quickly. Thus, if the last letter on a fifteen-minute magazine required priority, and the magazine had already been rewound to its beginning, it would be impossible to reach that letter without playing through all the material that preceded it.

The following comment, made by the stenographic head of one of the industrial firms interviewed, was typical of the remarks on this subject. "It frequently happens here that an official will dictate six letters and then specify that he wants the fifth one written at once because he must sign it and leave the office in a few minutes. The others can wait. On this wire magazine the typist would have to wait for some time for the wire to play 'through' to the specified letter before she could type it. This would be wasteful and cause trouble."

A fourth disadvantage in the use of this machine for dictation and transcription of business correspondence was the length of time required to rewind the machine to the beginning of a recording. Even though the rewinding function was at a speed four times greater than the normal progress of the wire when recording, it was generally believed that rewinding time in a busy office would be a burdensome function and would tend to slow down the speed with which letters or material had to be transcribed.

A fifth disadvantage was the difficulty of logging on the wire or of marking specific points on the recording. The respondents believed that the whole logging process would have to be considerably improved so that length of dictation and corrections to matter which had been dictated could be clearly and easily indicated.

It was common practice in machine transcription to check on changes and corrections in the recording as soon as the log sheet was received and to incorporate them in the first writing of the letter to be transcribed. This procedure was usually followed manually, and at once.

Even though the log sheets for the Lyon recorder were developed to be calibrated with the movements of the indicator, any notations of corrections or changes could not be readily attended to before transcribing or typing. The typist would have to "play through" the wire or rewind the wire to

points where corrections were indicated before she could know what they were, thus losing valuable time.

The head of one stenographic department commented on this feature by saying that, "The typist must go through the log slip or sheet and pick up all corrections or additions first and see just what they are. Otherwise, she would never know just how to write any letter properly in the first place. If there were corrections listed on a slip on other machines, she could adjust to them manually at once. I don't see how you could do it on a wire without playing everything through first."

A sixth objection to the Lyon wire recorder was the necessity of using a hand control in back spacing and rewinding the wire. It was generally stated that all controls to shift to "listen" or "back space" should be through the medium of foot pedals or controls on the typewriter. Further, it was necessary for the operator to reset the instrument to foot control after the instrument had been rewound or back spaced.

A seventh inefficiency of the instrument was the feature of interrupting sustained movement of the wire by a brake action of the foot controls. A second pressure on the control had to be exerted to release the brake. Such double action was considered inefficient by most respondents. The suggestion was frequently made that the instrument should be so constructed as to operate by a pressure on the foot control, stopping automatically as the foot was lifted. It was also considered undesirable that a button on the front of the machine had to be pushed to permit the present foot brake to function at all. This was considered a serious obstacle because of the frequent back spacing normally involved in transcribing.

The eighth objection to this instrument was that the dial indicator was not effectively coordinated with the movement of the wire. For example, a given reproduction might be indicated on the dial as a movement of the dial from figure seven to figure ten. If the wire were then rewound to number seven for the purpose of rehearing the recording, there was a period of hesitancy and fluctuation before the dial finally rested at some point other than the figure seven, and the desired reproduction was not heard from the same spot.

As a ninth comment, many respondents suggested that a small red light should show at all times when the switch was "on," thus avoiding the possibility of leaving the current on for long periods when the instrument was not being used. They also made several suggestions that the flashing light which was used to indicate the level of volume at which sound was being received could be much better indicated by an arrow or needle over an arc dial.

Finally, many tests made in the field of office dictation showed that there was a relationship of two minutes of thought to one of the spoken word. For this reason cylinder recording machines are equipped with a push button on the hand microphone which allows the instrument to receive dictation only as the button is pressed. The cylinder then has no pauses or silent spots,

which might confuse the transcriber or operator. Many respondents, therefore, believed that the wire recorder should incorporate the control of the recording function in some similar manner on the hand microphone.

2. *Transcription of Telephone Orders or Conversation.* The interviews made by the consultant's staff indicated that, in the various fields of business operation in which interviews were carried on, there was little evidence of need for transcription of telephone orders or conversations in present practice. In rare instances the results of a two-way or three-way conversation had been transcribed, but it was not regarded as a fixed or regular procedure.

It was pointed out by the respondents that there were two ways of handling recordings of telephone conversations. The first method was to record the conversation and have a typist transcribe the message. Under this procedure the defects of the Lyon machine for efficient transcription, as reported in a previous section, were enumerated. The second method was to file the recording without transcription. It was considered, however, too expensive to file a Lyon wire magazine. Other discs available on the market were considered much more suitable for such filing because of low cost, light weight, and small space requirements.

3. *Transcription of the Proceedings of Meetings and Conferences.* The respondents reported that the transcription of meetings and conferences was sometimes desirable and that such transcriptions had been made by several of them. In each case a stenographer was present, using either shorthand or stenotype.

The objection given to machine transcription by respondents who had knowledge of the procedure was that at any meeting or conference there was a certain amount of verbal disorder when the voices of different individuals broke in on the conversation or two individuals talked at once. It was generally agreed that at any conference, even under the most ideal conditions, a stenographer would have to be on hand who knew the name of each individual present so that remarks could be attributed to the right speaker.

4. *Recording of Trial Speeches, Radio Commercials, and the Like.* Limited use for a wire recorder was indicated by the interviews for recording auditions and trial speeches in the radio departments of advertising agencies.

The reactions of radio executives and technicians in the advertising field were generally favorable, although the following disadvantages for specific use in an agency were mentioned:

1. Lack of precise control in play-back.
2. The magazine containing the wire spools was considered too heavy for filing for future reference and too expensive for permanent recording of a given program.
3. One technician feared difficulty in the repair of broken wire containing a recording as it was now housed in the magazine.

In several instances the rather broad question of satisfactory reproduction of instrumental or vocal music was introduced. Some respondents held the opinion that the spoken word was satisfactorily reproduced on wire, but that music with its wide range of frequencies and dynamics was subject to considerable limitations by the wire itself.

5. *Recording and Transcription of Public Addresses and News Dispatches.* The interviews gave indication that the Lyon wire recorder would gain some acceptance in the field of domestic and foreign news coverage. Discussions with directors of communications and radio technicians in metropolitan daily papers in a weekly news magazine and in one of the large press bureaus revealed that the major applications would be:

1. To record and transcribe public addresses over domestic and trans-Atlantic radio.
2. To record and transcribe telephone news dispatches, either domestic or foreign. Other uses, such as recording business correspondence and two-way telephone conversations, were limited in news-gathering agencies.

The communications sections of news-gathering agencies utilized a variety of recording equipment, all equipped with a tape or disc. The tape recording equipment was of prewar manufacture, much of it awkward and unsatisfactory. Disc recording equipment was found to be generally more acceptable.

The clarity of reproduction in the Lyon wire recorder was favorably looked upon, and the advantages of uninterrupted reception for as much as an hour received widespread approval.

The major criticisms of the Lyon instrument related to the transcribing difficulties already enumerated in the section on "Dictation and Transcription of Business Correspondence." These defects were considered sufficiently serious so that no great acceptance of the Lyon instrument, as it was then constituted, could be expected in this field.

6. *Home Use for Private Recording.* Up to the time that the interviews were made, the retail sales of other brands of wire recorders for home use were negligible. Interviews with three leading dealers in phonographic and radio equipment brought out the following facts:

1. The prices of the one or two makes that had been offered for sale were very high.
2. The public had as yet shown no collective interest in home recording. It was something of a novelty, and the sales made to the time of interviews had been for the most part of the disc recorder type. A long and expensive educational program would be necessary to popularize wire recording.

The respondents for the most part predicted that the wire recording principle would be quite generally used as an attachment in a radio phonograph to replace, possibly, the use of discs for this purpose. Dealers, however, ex-

pressed the opinion that a large market in home recorders could not be expected until the packaged unit could be brought to a price below $100, with spools or cartridges of wire selling at a price comparable to that of present-day blank discs.

The reaction of dealers to the Lyon wire recorder may be summarized as follows:

1. The tentative price of $248 for the unit was much too high for recording purposes in the home market.
2. Its reproduction of the spoken voice was good. Its reproduction of music was not so satisfactory as it might be. However, allowances were made for the limitations of the small cone-type speakers contained in the cabinet.
3. Its switch control for recording or listening or rewinding purposes was not so smooth or efficient as it should be.
4. The cartridges or magazines were far too expensive for home recording use. Granted that the use of wire permitted continued usage for an indefinite period on one investment, according to the dealers, the average record made at home was for future reference.

The buyer of one large department, in commenting on the possibilities of a new producer in the wire recording field, stated in part, "I cannot see how any demand for the recorder will ever support more than two or three makers. It is conceded in the trade that we have skimmed the cream of high-priced buyers. There remain only the special sales for exceptional purposes (conferences, reports of meetings, and the like) to the corporations and the mass-produced items at modest prices to the home recording enthusiasts.

"It is significant that General Electric and Western Electric have announced nothing in this field, and that R.C.A. visualizes only limited production. . . .

"This is a good instrument, with good fidelity, but it has the limitations of all wire recorders. If your client is not tooled up now, it will be six to nine months before he is, and by that time, the market will be saturated with much lower-priced recorders."

Conclusions. In concluding the survey, the consultants stated:

> The definitiveness and consistency of the findings in respect to the Lyon wire recorder among the selected companies interviewed strongly indicate that no purpose would be served in further interviewing at this time. The findings are clear cut and indicate that the Lyon instrument, as it is now constructed, would not receive sufficient acceptance to warrant tooling up for production.
>
> It should be pointed out that the interest manifested by the respondents may indicate that there is a need for further improvement in present sound recording machines. If such machines could incorporate (a) improved sound reproduction, (b) greater ease in handling of the recording medium (cylinder, disc, wire, tape), and (c) elimination of special processing, such as shaving of

cylinders, without sacrificing the precision of control, these improvements would be welcomed. If it were possible to overcome the disabilities of the present Lyon instrument, as reported below, sufficient acceptance might be achieved to warrant entering the field.

It would seem evident that some of the disabilities in the Lyon machine, as outlined in this report, may very well be overcome through further work in engineering development or design. It will be necessary, however, for your engineers to determine which of the disabilities of the Lyon instrument can be corrected and which are inherent in any instrument of the wire recording type.

Although the tonal quality of the Lyon instrument is superior to that of the office dictating equipment now on the market, this attribute is considered by users as secondary to the mechanical aspects of operation required. Aside from this point, however, there is one wire recorder being readied for marketing by a competitive manufacturer which not only has tonal qualities comparable to those of the Lyon recorder, but it is considerably further advanced in meeting the requirement of the office appliance field.

The following is a summary of the considerations which led the consultants to the conclusion that such an instrument would find no broad acceptance:

1. The instrument did not lend itself to the necessary precision of control, particularly for purposes of transcribing a recording, to meet the needs of office dictation, telephone recording, recording of meetings and conferences, transcriptions of public addresses, and news dispatches. This lack of precision related to rewinding to an intermediate point of play-back, back spacing to replay any indistinct word or phrase, speed control, logging, foot controls, and the manual operations required.
2. Loading and unloading of the Lyon instrument by means of the magazine was very favorably viewed because of the ease and simplicity with which it was done. This feature was considered desirable but not sufficiently so as to overlook the deficiencies of the machine. The cost of magazines was considered an unfavorable factor.
3. For use in the specialized fields of radio and advertising agencies, the Lyon instrument does not possess the fidelity of reproduction required to meet the needs. In addition, the filing of a Lyon magazine instead of a record was considered undesirable.
4. The home applications of the Lyon wire recorders appear to be very limited because of the relatively high price. One low-priced wire instrument which had just been introduced at a price of $97.50 not only recorded on wire, but also played back standard records. R. H. Macy & Co. reported that it expected to have a radio-phonograph combination, including a wire recorder, to retail at $175 before the end of 1948. This same company looked forward to the time when home recorders selling for from $50 to $75 would be on the dealers' display counters.

Appendix A. Study of Sound Recording Equipment

Name of Company:_____

Address:_____ City_____

Type of Business:_____

Individual(s) Interviewed:

Name:_____ Title_____

Name:_____ Title_____

Name:_____ Title_____

Comments:

Interviewer:_____ Date:_____

I. DICTATION

A. Do you use a machine recording system for dictation anywhere in your organization? Yes____ No____

1. a. Enumerate the departments and classes of employees using:

Departments	*Classes of Employees*

2. a. Number and name of machines used:

	Number of Units	
Name of Machine	*Dictating*	*Play Back*
Dictaphone		
Ediphone		
Soundscriber		
Gray		
Other (Specify)		

3. a. What are the advantages of these particular machines?

_____

_____

_____

4. a. What are the disadvantages of these particular machines?

_____

_____

_____

5. a. Have you made any cost studies relative to the operation of these machines? Yes_____ No_____

6. a. About how much are your costs for the following: (Specify week, month, year, etc.)

	Total	*Per Machine*
1. Waxed cylinders	_____	_____
2. Recording platter	_____	_____
3. Other recording material (specify)	_____	_____
4. Cylinder shaving	_____	_____
5. Personnel to shave cylinders	_____	_____
6. Other costs (specify)	_____	_____

7. a. Are there any additional features which you would like to see in a sound recording dictation system which your present equipment lacks?

_____

_____

_____

If No to Question A

8. a. What are your reasons for not using a machine recording system for dictation?

_____

_____

_____

B. Demonstrate the wire recorder, explain its operation, what it will do, etc. Then ask:

1. b. Would you be interested in such a machine to meet your dictation requirements?

2. b. The instrument can be used for dictating and then playing back through a loud speaker. Would you prefer to have the play-back instrument limited to earphone use only?

3. b. What additional features would the machine have to possess to meet your requirements?

Dictating instrument

Play-back

4. b. The basic instrument as you see it here would have to sell for $248. Would you consider this price within reason?

5. b. Would you be willing to pay extra for the additional features you have suggested?

6. b. What do you think are the *advantages* which this instrument would have for you over your present method of machine recording?

7. b. Further Comments

II. TELEPHONE RECORDING

C. Do you have occasion to: Take orders over the telephone?

Yes____ No____

Transcribe telephone conversations?

Yes____ No____

1. c. How do you do it now?_____

2. c. Would there be any advantage in recording such telephone orders or conversations for central transcriptions?

3. c. To what specific applications would you consider such a method applicable?

4. c. The instrument can be used for recording and then playing back through a loud speaker or earphones. Would you prefer to have the play-back instrument limited to earphones only?

5. c. What additional features would the machine have to possess to meet your requirements?

Recording instrument _____

Play-back instrument_____

6. c. The basic instrument as you see it here would have to sell for $248. Would you consider this price within reason?

7. c. Would you be willing to pay extra for the additional features you have suggested?

_____

_____

8. c. Further Comments _____

_____

_____

III. TRANSCRIPTS OF MEETINGS AND CONFERENCES

D. Do you have occasion to have accurate transcriptions made of meetings and conferences? Yes_____ No_____

1. d. How do you do it now?_____

_____

2. d. Would there be any advantage to record such meetings or conferences for central transcriptions? _____

_____

_____

3. d. To what specific applications would you consider such a method applicable? _____

_____

_____

4. d. This instrument can be used for recording and then playing back through a loud speaker or earphones. Would you prefer to have the play-back instrument limited to earphone use only?_____

_____

_____

5. d. What additional features would the machine have to possess to meet your requirements?

Recording instrument _____

_____

Play-back instrument_____

_____

6. d. The basic instrument as you see it here would have to sell for $248. Would you consider this price within reason?_____

_____

7. d. Would you be willing to pay extra for the additional features you have suggested? _____

_____

8. d. Further Comments _____

_____

IV. RECORDING OF SPEECHES AND COMMERCIALS

E. Do you have occasion to make recordings of trial speeches, radio commercials, and the like, to hear how they sound? Yes_____ No_____

1. e. What kind of equipment do you use now?

Name and Type of Equipment	*No. of Units*
_____	_____
_____	_____
_____	_____

2. e. Would this unit (the wire recorder) meet your recording requirements? (Advantages and/or disadvantages over present equipment)_____

_____

_____

3. e. The instrument can be used for dictating and then playing back through a loud speaker. Would you prefer to have the play-back instrument limited to earphone use only?_____

_____

4. e. What additional features would the machine have to possess to meet your requirements?

Dictating instrument_____

_____

Play-back instrument _____

_____

5. e. The basic instrument as you see it here would have to sell for $248. Would you consider this price within reason?_____

_____

6. e. Would you be willing to pay extra for the additional features you have suggested? _____

_____

7. e. Further Comments _____

_____

V. NEWSPAPER APPLICATIONS (ALSO RADIO)

(Newspapers should be interviewed for Application I through IV in addition to those under this subhead. Taking reporters' stories over the telephone would fall under II.)

F. This instrument can be put up as a portable unit and carried to the scene of the fire or other incident by the reporter. The reporter can verbally describe the action going on around him and record it immediately. The cartridge can then be brought to the office for transcribing. In case of a radio station the recording can be broadcast at a convenient time as an eye witness account.

1. f. Would you be interested in an instrument which could function as described? Yes_____ No_____

2. f. What are the specific applications you would be interested in?_____

_____

_____

3. f. To what specific applications would you consider such a method applicable? _____

_____

_____

4. f. What additional features would the machine have to possess to meet your requirements?

Recording instrument _____

_____

Play-back instrument _____

_____

5. f. The basic instrument as you see it here would have to sell for $248. Would you consider this price within reason? _____

_____

6. f. Would you be willing to pay extra for the additional features you have suggested? _____

_____

7. f. Further Comments _____

VI. HOME USE

G. This section is intended for radio distributors and dealers, department stores, and so on which may be able to merchandise the wire recorder as a complete package for home use.

1. g. Are you handling any wire or tape recorders for resale? If so, which?

Make	*Model*	*Retail Price*	*Dealer Price*	*Wholesale Price*

2. g. What, in your estimation, are the good and bad features of each? _____

_____

_____

3. g. What has been your sales experience with each?

Make	*Model*	*Sales (Units)*	*Period Covered*

4. g. In your estimation, what are the advantages of this instrument over those you have sold or are familiar with?_____

What are the disadvantages?_____

5. g. What additional improvements or features should be included to make this instrument more acceptable?_____

6. g. At a retail price of $248 for the present instrument, how many do you believe you could sell in the first year?_____

7. g. Further Comments _____

VII. SPEECH TRAINING

H. Universities, department stores, telephone companies, private schools, radio stations, and the like, giving speech training courses.

1. h. Do you use any recording device in speech training?

Yes____ No____

2. h. (if "yes") What recording equipment do you use?

Make	*Model*	*No. of Units*	*Cost*

3. h. What are the advantages and disadvantages of your present equipment?

4. h. What is your reaction to this instrument in the light of your requirements?

5. h. What additional improvement or feature should be included to make this instrument more acceptable?

6. h. At a retail price of $248 for the present equipment, would you be interested in purchasing any if it were available? Yes____ No____
How many?

7. h. Further Comments

43. HAWTHORNE UNDERWEAR COMPANY

In the fall of 1951, Mr. William Baker, the general sales manager of a company manufacturing underclothing and sleeping garments, re-examined the policy of selective selling in the light of postwar market possibilities. During World War II, the shortage of cloth had restricted production so that even the orders of selected accounts could not be filled. In connection with this program, the company had also adopted a system of sales potentials as an aid in achieving a higher sales volume through more intensive solicitation of fewer accounts.

Hawthorne Underwear Company had sales offices in six of the largest cities of the country. It manufactured a complete line of men's, women's, and children's underclothing and sleeping garments. In 1947 it employed 35 salesmen who sold directly to 4,800 retail outlets. At that time Mr. Baker decided to drop 1,800 of the smaller of these accounts and concentrate efforts on the remaining 3,000 accounts. By discarding 37% of the total number of accounts the company lost only 2% of its dollar sales volume.

The remaining accounts were divided evenly into key accounts and nonkey accounts. The key account was determined not only by the volume of its purchases but also by the financial standing of the store, its location, its buying influence in the territory, and prestige in the community. The nonkey account generally had annual purchases of less than $1,000. These accounts received less service and attention from the salesmen and some were not even solicited.

In order to maintain the same dollar sales volume the general sales manager planned to intensify the company's selling efforts with its remaining customers. Mr. Baker examined each key account with the salesman who sold to that store. They divided the line into 10 product classifications. Applying the percentage figures of the Controllers Congress of NRDGA and their own personal knowledge of each store, they arrived at an estimated "potential" for each product class for each store. From their own observations the salesmen believed that they were able to estimate with reasonable accuracy the total actual sales of the departments which they were selling. This estimated potential or sales quota was defined as the highest volume of sales which the company could reasonably expect to realize from the specific store or department under consideration, allowing for the usual sales of three or four leading competitors. Therefore, the potentials in nearly all cases were well in excess of actual sales results. When the sales increased so as to nearly equal the potentials the sales manager increased the potentials. Mr. Baker believed that the potentials should be re-examined every six months and revised as changing conditions and newly discovered facts dictated. In actual practice, many of the potentials were re-examined only about once a year.

In addition to the potentials, the sales manager and the salesman also rated each key department as to its standing in the community. For this purpose they listed seven key departments in which the company was interested: men's, boys', knit goods, rayon goods, infants', children's, and foundation garments. These departments, like the key accounts, were graded not only on their volume of sales but also on their buying influence among the consumers and other stores in the community and on the quality of their merchandising. If it appeared to Mr. Baker that the sales to some of the departments were less than their rating would seem to command, he would con-

sult the salesman to determine the cause of it and attempt to arrive at a more effective selling approach. Sometimes the department needed a better display of advertising within the department which the company was glad to furnish without cost to the store. In some instances the salesman had failed to push the line sufficiently. Occasionally the weakness was the result of the internal organization of the department over which the company had no control.

The ratings of the key departments and the estimated potentials for these departments were kept by each salesman on a record sheet known as a "Key City Account and Department Analysis." This record carried the actual sales figures and the estimated potentials for each department of each store. Cumulative monthly sales figures for a five-year period were carried in a smaller loose-leaf notebook. On another sheet in the notebook these figures were broken down for the current year into 10 product classifications, containing cumulative monthly sales figures for each class of products. Every salesman had one of these books with him at all times. The books also contained the names of the buyers and certain sales data. The sales figures were sent to the salesmen monthly, and the salesmen posted them on the books.

On re-examining the results of the policy in December, 1951, Mr. Baker reflected that the company had been able to reduce its salesforce from 35 to 31, and selling costs had decreased from 6.2% to 5.0% of sales. The company had experienced very small credit losses and in nearly all cases customers had taken their discounts. How much of this was a result of the war and how much a result of the selective selling program was questionable. It was expected that normal competitive conditions would return within a year. Mr. Baker questioned whether the company's program of selective selling and sales quotas would be suitable to postwar conditions.

Under what conditions might the selective selling program continue to be successful?

To what extent can market and sales research contribute to success of the policy?

44. BRYANT HEATER DIVISION, AFFILIATED GAS EQUIPMENT, INC.
Market Study

Early in 1952, executives of the Bryant Heater Division of Affiliated Gas Equipment, Inc., asked their commercial research department to study the demand for perimeter heating systems and recommend whether Bryant should supplement its line of furnaces with models designed specifically for this market.

Perimeter heating, a recent development for homes, had gained some support in the last few years, especially for use in basementless houses. Its proponents said that it overcame the disadvantage of cold floors and gave an even heat free from drafts.

Perimeter systems most commonly used downflow furnaces which took in cold air at the top, heated it, and forced the warm air out into ducts leading from the bottom. The air flow was just the reverse of that in the upflow models employed in most central heating systems. While the downflow furnace had been developed expressly for perimeter heating, other types, including the upflow, also had been used.

Bryant executives had been interested in perimeter heating for a number of years, but, prior to 1951, they believed that too little was known about it to warrant the promotion of a special downflow furnace. Several of the Bryant standard furnaces had been tried with perimeter systems in a few instances before 1950 when Bryant converted one of its regular oil furnaces to a downflow unit (model 310). The latter was not promoted and very few units were sold. It later was adapted as a gas downflow (model 310G) and several hundred were sold in the last six months of 1951.

The furnace, a makeshift to meet the demand for a downflow model from some distributors, was priced considerably higher than competing makes and Bryant executives were not satisfied with the design. It was not regarded as a product with which Bryant could make a strong bid for the perimeter heating market. Therefore, the commercial research department had been asked to study the demand for perimeter heating. If it were found to be great enough to warrant attention, it would be necessary to outline a course of action relative to the design, production, and sale of suitable furnace models.

Bryant was the largest of three divisions of Affiliated Gas Equipment, Inc., of Cleveland which manufactured and sold 370 individual sizes in 60 model lines of heating and air conditioning equipment for home, industrial, and institutional users. The company's sales in 1951 were $41,321,185.

AGE's product line included boilers, forced air furnaces for winter air-conditioning systems, furnaces for gravity warm-air systems, furnaces for residential installation below the floor, unit heaters, all-weather conditioners for temperature and humidity control in homes, space heaters, conversion burners for transforming existing boilers and furnaces using other fuels to automatic gas or oil operations, water heaters, room air conditioners, air dryers, and gas combustion equipment. The heating equipment used either gas or oil for fuel.

The company's products were sold under the names of all three of its divisions, Bryant Heater, Day & Night, and Payne Furnace. Each division had its own wholesale and retail distributive organizations. Offices of the Day & Night and Payne Furnace divisions, which sold mostly on the West Coast, were located in Monrovia, California.

Bryant, a leading name in the gas heating field, had its offices in Cleveland. The division used 50 sales territories which covered the United States except for the West Coast. Forty distributors and 10 company-owned branch

offices sold to retailers, who, in turn, sold to the ultimate user and handled installations.

Market research had played an increasingly important part in AGE's sales planning in recent years. Studies had included the examination of sales potential and desired specifications of new products, sales forecasts, the setting of sales quotas, and the study of industry trends. Bryant's commercial research department consisted of two full-time men plus secretarial help. Its manager reported directly to the general manager of the division. A separate research department located in Monrovia, California, served the two West Coast divisions.

The investigation of the market to determine whether Bryant should manufacture downflow furnaces especially for perimeter heating systems took about six months, although the two men in the research department were unable to devote full time to the project during this period. The estimated cost of the study was between $3,000 and $4,000. Upon completion of the work, they submitted a report outlining findings and recommendations to the operating committee which would decide what action should be taken. Members of the operating committee were the general manager of the division who was a vice president of AGE, and the managers of the departments of finance, engineering, production, sales, and commercial research.

BRYANT HEATER DIVISION

Affiliated Gas Equipment, Inc.

17825 St. Clair Avenue, Cleveland 10, Ohio

Letter of Transmittal

TO: Bryant Operating Committee
SUBJECT: Perimeter Heating and Downflow Furnaces

Here are the results of our investigation of the market for perimeter heating and the use of downflow furnaces.

Perimeter systems are a recent development in the field of home heating, designed particularly to overcome the disadvantage of cold floors in basementless houses and to give an even heat free from drafts. . . .

Our market figures, the first attempt we know of to estimate the size of the perimeter market, indicate that perimeter installations this year will be more than double those of last year, and all indications are that this market will continue to expand. The downflow furnace appears to be the most readily adaptable unit for perimeter systems and its use should also grow along with the perimeter market.

The downflow furnace for some years to come will be used almost entirely in new construction and the Bryant downflow should be designed for this market. It should be a model with which our field organization can make a very determined effort to increase its share of the new construction heating market.

Shortly after we started to analyze this market National Warm Air Heating and Air Conditioning Association surveyed its members relative to their volume of downflow furnaces. The results are outlined in our report. It is significant, however, that Bryant accounted for only 3½% of the gas downflow sales and 2½% of oil downflows last year.

GAMA has now set up its statistical reports to show sales of downflow furnaces separately. We will watch these figures closely and issue subsequent bulletins and reports on this subject as trends develop.

R. T. Killian
Commercial Research Department

A. INTRODUCTION

I. *Background.* Perimeter Heating—a fad here today and not used tomorrow, or a permanent advance toward better heating systems? This is the basic question which started us on our investigation of perimeter heating and the use of downflow furnaces in connection with this system.

Installations using the idea of perimeter heating probably were made prior to World War II, but it wasn't until after the war that the International Oilburner Company of St. Louis converted their trailer heaters to downflow furnaces and started promoting perimeter. Up to now the growth of perimeter systems has been slow, but it has only been within the last several years that the National Warm Air and Air Conditioning Association has investigated and started pushing perimeter systems. Their first technical bulletin on perimeter heating systems was published just early this year. A survey by National Warm Air Association of both gas and oil furnace manufacturers showed only 12,000 downflow furnaces shipped in 1951, 6,000 of which were gas and 6,000 oil. Fifteen of the 53 reporting manufacturers indicated shipments of downflows, but a number of the others advised they would manufacture downflows in 1952. Based on this 12,000 figure we estimate that a total of 15,000 perimeter heating systems was installed in 1951, representing 2% of the gas and oil furnace market.

At present it appears that the number of perimeter installations will increase greatly, aided in part by the restrictions on copper tubing for hot water radiant heating. But will perimeter heating continue to grow in popularity or is this another heating idea that ends up with a limited application and a few ardent proponents? We feel it is very important that Bryant make some informed decisions on this question now before the market grows any larger.

II. *Purpose and Method.* The purpose of this report is twofold:

1. Determine the potentialities of perimeter heating systems. This includes an evaluation of the market trend of basementless house construction; also the slab house part of this market.
2. Evaluate the importance of downflow furnaces in the heating market with the object of recommending a course of action for Bryant relative to the design, production and sale of downflow (counterflow) units. This includes a comparison of downflow units with the use of conventional furnaces for perimeter heating.

When we started our investigation we discovered that there was practically no information concerning the size of the perimeter heating market, at least not on a national scale. In order to arrive at an understanding of this market and to estimate the future demand for downflow furnaces, we have not only had to talk to informed people in the industry and the Bryant field organization, but have also taken the following steps:

1. Personal visits to fourteen cities in various sections of the U.S. These 14 cities included those in the East, the Great Lakes Area, Oklahoma, Missouri, and Tennessee. In most of these cities we went out and looked at the homes under construction.
2. A survey of the home builders in Cleveland.
3. A nationwide survey of Home Builders' Association Secretaries and Newspaper Real Estate Editors. Returns on these two surveys are from 84 different cities in all sections of the country.

We believe this report presents more complete information on the market for basementless houses and perimeter heating than is available from any other source at the present time.

III. *Conclusions.* Our general conclusions on the market for perimeter heating and downflow furnaces are summarized briefly below.

1. Perimeter systems are a step forward toward better heating comfort.
2. Perimeter systems are used mostly for newly-constructed basementless houses.
3. Basementless houses are a large part of the new construction market even in the North and the trend still is toward their increased use. Slab houses are the major part of the basementless market and represent the better part of the market for perimeter systems today.
4. The market this year for perimeter systems will be around 35,000–40,000 installations, most of which will use gas.
5. The practical potential for perimeter systems (basementless houses with central heat) is about one-quarter of all new house construction.
6. The majority of perimeter systems in basementless houses uses downflow furnaces.
7. Bryant should manufacture a competitive downflow furnace.
8. Promotion of perimeter systems and downflow furnaces has been almost negligible.

The lengthy detailed report which was attached to the conclusions included a description of perimeter heating in its various types and installations in which details were given for those who were not completely familiar with the new heating system. Its advantages and disadvantages were outlined in a separate section and discussions of the market characteristics began immediately after the second section of the report. The first market section was an analysis of the basementless house market in which the market research analyst used both secondary information from the Bureau of Labor Statistics and the Housing and Home Finance Agency and other sources. A question-

naire was sent out by the *Architectural Record* but a trial run made in three cities [1] was on the whole unsatisfactory in the number of returns. A survey was then made of the secretaries of Home Builders Associations and of the real estate editors of the major newspapers with success.

The authors concluded from the survey that over 50% of houses started in the previous year was without basements.

The analyst then proceeded to the general statement regarding the perimeter heating market, pointing out that the tabulation of the 84 areas surveyed showed approximately 27,000 heating perimeters installed in 1952. It was concluded on the basis of the large increase from 1951 to 1952 that the trend was towards perimeter heating. Applying the various percentages to the total number of houses to be constructed in 1953, the practical perimeter potential totaled $239,600.

The next section of the report dealt with the downflow furnace, descriptions, sizes, features and prices, promotion and trade acceptance. The conclusions were that Bryant should have a line of downflow furnaces priced competitively, and that two sizes should be made, basing the recommendations on the conclusions that gas downflow furnaces appeared to have taken the lead over oil for perimeter systems. The remainder of the report contained detailed data on the specific surveys. In total the report covered about 40 typed pages.

To what extent could the executives of Bryant Heater Division base decisions upon this survey?

45. GRIGGS COMPANY

Griggs Company, located on the Atlantic seaboard, manufactured waxed, coated, and gummed paper. The company's sales volume amounted to less than $5,000,000 annually. The majority of its waxed paper sales was made on a special order basis since consumers customarily wished it printed with their name and appropriate designs. Users included bakers and confectioners, although food, soap, and tobacco manufacturers, and florists also constituted important markets. Direct sales were made to customers throughout the United States by 12 salesmen, 6 of whom specialized on waxed paper. Only 5% of total waxed paper sales was made to wholesalers.

Although many orders for coated and gummed papers necessitated the manufacture of special lots, standard lines were in constant demand and could be manufactured to stock. Of the total sales of these two lines of products, 62% was made directly to setup manufacturers, corrugated box manufacturers, envelope manufacturers, printers, confectioners, tablet and pad manufacturers, tag and label manufacturers, and a variety of miscellaneous customers; 38% was made to paper wholesalers. Some of the latter

[1] Cleveland, Memphis, and Houston.

carried a general line of papers while others specialized upon box-covering papers.

The sales manager was dissatisfied with the volume secured in one territory and asked the market research department to make an analysis of sales potential. The salesman, Mr. Jones, covered the states of Ohio, western Pennsylvania, West Virginia, and Kentucky. His volume had declined 54% from the previous year and 72% in two years. In spite of a general business decline this showing was unsatisfactory, but the sales manager was undecided whether to place a new salesman in the territory or change boundaries so that the salesman's efforts might yield better results. Before coming to any decision, however, he wished to have some estimates of potential sales in the territory under consideration.

The market research department made an estimate of the demand and concentration in western Pennsylvania, Ohio, and contiguous areas. The following quotation from the report submitted in this connection explained the method used:

> The ideal method would be to have an accurate estimate of the total usage by all sizable prospects of good credit standing for all papers similar to those of Griggs in the entire area in question from the report prepared by the market research department. This is not possible at this time. The salesmen's call reports cover far too few customers and prospects to be of much use in furnishing estimates of annual consumption. Any other method, such as the use of special field investigator, would be exceedingly expensive, and so slow as to defeat the whole purpose of this report.
>
> The only method that appears feasible under the circumstances is as follows:
>
> 1. The selection of major classes of Griggs customers; boxmakers, bakers, confectioners, jobbers, and so on.
> 2. The listing of all Griggs customers in each class, and the compilation of the average Griggs sales in each class with the arrangement of customers by Dun and Bradstreet rating.
> 3. The selection of prospects of good credit in these major classes, and their arrangement by similar Dun size ratings.
> 4. The application of these prospects of the average Griggs sales figure discussed under (2) depending on the Dun size rating.

By following this procedure a rough measurement of demand was obtained for waxed, coated, and gummed paper in each city and town of any importance throughout the whole territory and estimates together with sales and calls were presented. These figures did not represent the amounts that the company sold or could hope to sell because, obviously, it would be impossible for Griggs salesmen to secure every prospective customer in the territory, and most buyers did not purchase all their paper requirements from a single supplier.

Sales were compared with the estimated demands of the customers to

whom the sales were made in order to arrive at a percentage relationship that could be applied to the potential for all prospects in the territory. The ratio was established for major classes of customers with illustrations of the application of these ratios in the determination of estimated possible sales from all prospects.

Discuss the merits and demerits of the method of obtaining potential.

46. BABSON BUS AND TRUCK COMPANY. Determination of an Account Potential Basis for Salesforce Planning and Control

At the beginning of the Korean War, the sales development departments of the Babson Bus and Truck Company, under the direction of Mr. R. T. Ronald, undertook the organization of a personalized service program to be offered existing owners of Babson trucks and busses. Faced with the problem of maintaining its distribution setup because of the suddenly curtailed production of automotive equipment used for industrial purposes, Mr. Ronald planned to utilize all company distributors, branch offices, and factories in an effort to help Babson truck operators obtain the most efficient use of existing equipment. Such a system of preventive maintenance was intended to provide the additional source of revenue necessary to sustain the majority of distributors. As one step in the program's development, the company made a survey to determine the exact amount of Babson equipment in use; the data thus obtained were subsequently employed in determining the number of customers and potential sales, outlining district sales territories, and organizing a new sales control procedure.

Babson distributed its trucks and busses partly through a company-owned organization consisting of 35 branch offices divided in approximately equal groups under the supervision of 9 regional managers. These managers, several of whom held the title of vice president because of long terms of service, reported directly to a vice president in charge of sales at the home office in Philadelphia. In addition, the company had 150 distributorships in exclusive territories which were independently owned and operated, with 325 dealers. While Babson manufactured only 10 different models of trucks and busses, over 450 combinations could be obtained by changing the type of axle, transmission by optional engines, number of wheels, etc. Two factors determined whether the company would operate its own district organization, or assign the territory to a distributor under franchise, namely, the district's past history, and its potential. If experience had demonstrated that distributors consistently had difficulty in developing a territory or were losing too much business to competitors, a branch would be established. In any event, where the account potential was sufficiently high, and where direct sales control was considered essential, Babson maintained a company branch.

The survey of all Babson trucks showing operating data, replacement

parts, and important service information, was intended as an aid to company salesmen, managers, and distributors in planning immediate parts supply and in guiding decisions and action toward improved truck and bus service selling. In initiating this study, the company obtained from an independent mailing house a list of owners giving truck data; the mailing house's information compiled from state sources differed according to respective registration requirements. The sales development department then filled out truck operator survey cards (Exhibit 1) for each account on the mailing list, giving the owner's address and a detailed listing of trucks by make, model, and year. Any remaining portion of the card was to be filled out by Babson representatives with the help of the owner. Mr. Ronald explained that the company felt certain of this cooperation from owners because of the many advantages of the personalized service program which included lubrication charts, forms facilitating a better system of preventive maintenance, truck identification plates, maintenance manuals, standard maintenance instruction cards, and other owner helps.

Once mailing list data were transcribed, the survey cards were forwarded to branch managers and completed in the field. The information which the company salesman recorded was threefold: (1) the mileage of each truck in the owner's fleet; (2) each serial number and model; and (3) information which would be helpful in anticipating service or parts requirements. The latter classification was broken down into 10 parts which were listed on a "survey key card" (Exhibit 2) to be carried by the salesman on his interviews. As he talked with the truck owner, he circled each number that applied to a bus or truck on the reverse side of the survey card. Thus one or more cards were used for each operator depending on the number of vehicles owned. From his knowledge of the territory and the accounts therein, the salesman added to the list of survey cards as he found accounts not in business at the time the mailing list was compiled. When the study was completed, the home office retained a survey card for each account in the country, the branch office kept one on file for each customer and prospect in its area, and the salesman kept a card for each account in his territory. Results of the survey showed approximately 20,000 operators in the country operating one or more Babson trucks and a total of 500,000 of other makes of trucks; included in this figure was an average of 200 per territory for the company's approximately 175 salesmen. However, concentration differed from one territory to another, some containing less than 20 accounts, some over 400, depending on the amount of business potential. The company's distributors had on an average of one to three salesmen each.

A by-product of the mailing list survey was the customer potential analysis, an attempt to reach some estimate as to the annual service and postwar truck business that Babson might expect for the following years of normal produc-

Exhibit 1. Babson Bus and Truck Company. Truck Operator Survey Card

COUNTY

TRUCK OPERATOR SURVEY

FIRM	Babson	WHITE	MACK
ADDRESS	AUTOCAR	DIAMOND T	G M C
CITY, STATE	INTERN'L	All Others	Total Trucks
BUSINESS (TYPE)			

IF SUBSIDIARY NAME AND ADDRESS OF PARENT COMPANY — SALESMAN'S SIG

CONTACT	TITLE	CONTACT	TITLE
CONTACT	TITLE	CONTACT	TITLE

CALL DATE	RECALL DATE	BRIEF RECORD OF INTERVIEW—STATE ESSENTIAL INFORMATION

MAKE	YEAR	USE	MODEL	ANSWERS
				1 2 3 4 5 6
Ser Mi.				7 8 9 10
				1 2 3 4 5 6
Ser. Mi				7 8 9 10
				1 2 3 4 5 6
Ser. Mi				7 8 9 10
				1 2 3 4 5 6
Ser Mi.				7 8 9 10
				1 2 3 4 5 6
Ser Mi.				7 8 9 10
				1 2 3 4 5 6
Ser. Mi.				7 8 9 10
				1 2 3 4 5 6
Ser. Mi				7 8 9 10
				1 2 3 4 5 6
Ser. Mi.				7 8 9 10
Fords Total				1 2 3 4 5 6
Chevrolet Total				7 8 9 10
				CIRCLE ABOVE NUMBERS AS SHOWN ON SURVEY KEY CARD

Exhibit 2. BABSON BUS AND TRUCK COMPANY

SURVEY KEY CARD

Enter Make of Truck or Bus, Serial Number, Annual Mileage and Total Mileage to date, Model, Year, and Type of Use, of Each Vehicle, in space provided on TRUCK OPERATOR SURVEY Card, Form 1961 or 1962 (for fleet owners).

Indicate answers to following questions by placing a circle around each number as shown on the TRUCK OPERATOR SURVEY Card; for example—① or ⑨.

1. Truck or bus will be used more than two years at present usage rate.
2. Truck will be replaced when new truck is available.
3. Performance is satisfactory.
4. Babson truck now serviced by Babson.
5. Other make serviced by manufacturer of vehicle.
6. Truck now serviced by owner's repair shop.
7. Section 2 (Vendor) parts now purchased from Babson.
8. Section 2 (Vendor) parts now purchased from sources other than Babson.
9. Operated over very hilly road conditions.
10. Operated over hard surface roads.

tion. Data pertaining to each account's address and the number and make of trucks owned were transferred from the survey cards to "customer potential analysis" cards by the branch office or distributor. Then, in computing both a unit and dollar potential, the branch manager and distributor proceeded according to a formula laid down by the sales development department. The rate of replacement of Babson trucks was estimated at 20% and that of all makes at 5%. In other words, the company believed that, out of a Babson fleet of five trucks, one would be replaced each year and out of a fleet of 20 competitive makes, Babson would be able to make one new sale per year. The annual estimate of sales of labor (service at Babson factories, branches, and distributors), parts, and accessories was based on varying rates for each commodity. Labor was computed at a potential of $60 per Babson truck per year, parts at $100, and accessories at $40, although these amounts varied according to use factors. In estimating the potential for trucks in each particular district, managers were allowed a certain latitude of judgment because this figure varied for each customer according to the type of truck owned. For instance, the replacement cost for trucks in a particular fleet was $1,875 while the average replacement cost for the district as a whole actually came to approximately $3,900. Likewise, the potential on accessories might vary according to the type and size of truck owned. Labor and parts requirements for all districts varied according to the number of trucks, operating conditions, and the extent of use of the trucks. Figures on truck

potentials also differed in the various localities primarily because of regulations governing truck weights in different states. Trucking companies operating in the West were unlimited on the total gross weight that could be carried while owners in the East, particularly in the New England states, were restricted to gross weights approximating 40 tons. Salesmen's commissions were also figured at varying rates and their potential earnings compiled, for analysis of results, together with the potential sales to the account.

In December, 1950, the Boston manager wrote the following letter to the home office, relative to the assignment of salesmen in his district:

Mr. R. B. Wasson
Vice President

S. J. Bunting
Boston Branch Manager, December 13, 1950
Sales Potential—Boston Branch

Boston

We have made a very careful analysis of the potential for the sale of trucks, labor, parts, and accessories in this territory. Attached is an analysis of the potential as a whole, and the individual salesmen's assignments.

The complete territory is now broken down into the various assignments as indicated. I have seven (7) men working what is normally called "Boston Retail Sales Area" and two (2) men assigned to the territories extending beyond greater Boston limits; Wysor working from the northern boundary of our Boston limits to the New Hampshire State line, and Driscoll covering the territory south of our Boston retail sales territory to Cape Cod and the Providence distributor's northern boundary. The territory from Cape Cod Canal, south and east through to Provincetown on Cape Cod, is covered by our dealer, Eastwood Company, located at Hyannis.

The retail assignments in the Boston territory, with the exception of Jim Pierce, all have some exclusive territory, with the privilege of working in Boston proper, Cambridge, Somerville, and Charlestown, which we designate as open territory.

The potential on each assignment was arrived at by figuring from personal information the potential value of each Babson truck replacement, and the average sales per Babson truck in each assignment:

Labor	$ 90
Parts	150
Accessories	75

with the exception of Driscoll and Wysor, where an estimated potential of $75 per Babson truck for labor sales was used. This exception to the rule was because of the greater distance between the customers and our service facilities.

Assignment #1—Don Pierce. This assignment indicates a potential of $18,408. There are 476 Babson trucks in this assignment, and 1,539 other trucks of two ton or over, or potential Babson vehicle prospects. On the basis of using

20% as a replacement on Babson trucks, and 5% on other make trucks, this assignment should sell 95 Babson trucks, and an additional 77 to the other trucks owned by operators in this assignment, or a total of 172 trucks per year. I recognize that this assignment is very large for one man to cover, but in the main, it has been accounts which Don has developed over his long years as a salesman. Up to the present time, I did not want to disturb this assignment because I believe it will not be too long before Don will retire.

Assignment #2—Dan McColl. McColl's assignment indicates he has a potential commission from the sale of trucks, labor, parts, and accessories of $32,529. When McColl first came back with our company, 10 or more years ago, he was assigned the North Shore territory, indicated on the attached chart as Territory #2.[1] I still have him covering this territory today. During these 10 years, he has gradually developed a large number of accounts with a very large potential in Boston proper. The potential from the accounts he is now assigned in Boston proper amounts to $24,000, whereas his territory potential is only $8,529. Included in his Boston assignment are some rather large accounts that have great potential. We are not selling all of these accounts, but their potential is large, and sooner or later, we will get business from them. I believe that so far as this assignment is concerned, I will have to decide that McColl will handle only the Boston accounts.

Assignment #3—Jim Franklin. Prior to his return from service with the Navy, Jim Franklin was a junior salesman working under Bob Farley. During that time, he indicated an aptitude for our business, and upon his discharge from the service, I assigned to him the territory formerly handled by Jim Pierce, which is indicated on the chart as Territory #3. This territory, together with the accounts that Franklin has in open Boston proper territory, indicates a potential of $13,281. He is doing a very good job in covering his assignment.

Assignment #4—Ben Frost. Frost's territory indicates a potential of $13,341. He is assigned Territory #4, together with many accounts in Boston open territory. I have no idea of changing this assignment because I believe he is doing a good job in accomplishing possibly the maximum results from his accounts.

Assignment #5—Joe Driscoll. Driscoll is assigned, exclusively, Territory #5 as shown on the chart, which extends south from our retail Greater Boston territory down through the southern part of Massachusetts to the Providence distributorship lines. In this territory, registrations indicate 177 Babson trucks with 780 competitive other makes. The potential from this territory would indicate a potential of $12,064. Included in Driscoll's assignment is a retail dealer, Eastwood Company, who we believe will sell 24 trucks per year. The potential earning from Eastwood Company is $791.

Assignment #6—Bill Wysor. Bill Wysor covers the territory north of Boston, shown as Territory #6 on the attached chart. In this territory are 202 Babson trucks with 1,122 other makes. This territory should sell 40 Babson trucks as replacement and 56 trucks replacing other makes. This territory has produced very well since Wysor took over. In my opinion, should I take the Lynn and

[1] This chart, showing the new Boston territories referred to, is not reproduced.

North Shore territory assignments from McColl, by adding this additional territory to what Wysor now has, the North Shore (by including McColl's territory) could support two (2) men.

Assignment #7—Merrill Benson. The attached sheet would indicate that there is only a potential of $8,647 in this territory. Merrill is the last salesman we added to our salesforce. We added him during the war, and he was assigned to cover Hemmings' territory. When Hemmings came back from the service, I gave him back his own territory and assigned the territory known as #7 to Benson. This territory has never produced as large a volume of business as we have enjoyed in our other retail territories. I believe the reason for this is that we have never worked it properly. By having Benson working this territory, he has developed a considerable number of new sales, and I intend to keep him working on this assignment, adding from time to time accounts that will become available in our retail Boston area. I am certain that this method, properly followed, will eventually make this territory produce.

Assignment #8—Jack Hemmings. Hemmings' potential indicates commission possibilities of $13,945. In his territory, there are a total of 2,131 trucks, of which 201 are Babsons. His assignment should replace 40 Babson trucks per year and a possibility of replacing 97 other makes per year. I have no idea of making any change in this assignment. I believe that Hemmings should work it as it is set up for what it is worth.

Assignment #9—Jim Pierce. Jim Pierce, as noted above, previously held the territory that is now assigned to Jim Franklin. He is now working forty (40) accounts, which have a potential of $18,370. Most of these accounts are located in downtown Boston.

The potential indicated on the attached analysis indicates that we have a replacement market of 1,100 trucks per year; 485 replacing Babsons on the basis of 20% per year, and 615 replacing other makes on the basis of 5% per year.

S. J. BUNTING

Potential:			
1,100 new trucks	$4,364,967	Truck commission potential	$131,353
Labor sales	205,278	Labor commission potential	6,158
Parts sales	349,590	Parts commission potential	3,483
Access. sales	175,890	Access. commission potential	3,489
Total volume potential	$5,346,451	Total commission potential	$144,483

CASES IN BRIEF

1. A company manufacturing a specialty food product controlled about 20% of the national market. It used the same methods for its general selling program as its competitors with the exception that it advertised more extensively than some of them. It proposed to add 50% to its advertising program in order to secure 25% of the market which was split up among four large competitors and a score of smaller ones.

Discuss.

2. In planning its development of markets, upon what basis should a company develop data and opinions concerning existing and potential competition?

3. The Thomas Motor Company, one of the world's largest manufacturers of

trucks, busses, and motor coaches, included in its line trucks ranging from ¾ ton to 10 tons upward with both cab-over-engine and the more conservative models. The motor busses and coaches accommodated from 15 to 50 passengers and sold at prices ranging from $5,000 to $25,000. The units manufactured by the company were primarily the gasoline mechanical type. In preparing its plans for the post-war period, the president of the company asked the coach sales manager to study market conditions and present a report dealing primarily with two problems: (1) The types of urban bus which would probably afford the largest market for manufacturers in the ensuing 5 to 10 years. The president was anxious to know which would probably be most in demand: trackless trolley, gasoline electric, gasoline mechanical, Diesel electric, Diesel mechanical, or hybrid. (2) The probable size of the urban bus most in demand during that period. The president had therefore recognized the need for definite market estimates in order to plan future development.

Can dependable estimates be made? How should the coach sales manager proceed in preparing the study? Would a desk survey be sufficient?

4. How can a company determine its market position?

5. Under what conditions is market position a desirable standard by which to judge the success or failure of sales operations? When may market position be misleading?

B. SALES ESTIMATES AND SALES QUOTAS

The second phase of sales planning which rests in part on market information and market planning involves setting up tasks for the sales organization. It brings into consideration several conceptions that have to do with the total volume and profit plans of the sales organization. Included are the total sales potential which may be expressed as estimates of what might be purchased by a market under certain assumed conditions, or as actual industry sales estimates secured from authoritative sources. The company sales estimate in total, and by major classes of products to be used by the organization for planning purposes, is a part of any sales planning procedure and is often combined with a sales budget which is used as the basis for developing an integrated financial plan, including both expenditure and income.

The problems involved in planning the total sales task, as well as the tasks to be assigned to various parts of an organization, may become very complicated. Before undertaking it, the sales executive must know the sales proposition and the product to be sold, the markets in which it is to be sold, including the middleman through whom products may have to be sold; and knowing the prices and terms at which the products are to be sold and the break-even points and profit goals expected, it is up to the sales executive to appraise the size of his total responsibility and divide that total task into manageable portions and delegate responsibility for performance to specific individuals.

Obviously, the task of selling for a company which plans to dispose of $10,000,000 worth of a particular product is considerably greater than that of planning for a company which is to sell only $1,000,000 worth, provided both

are selling similar and equally acceptable products through the same channels. On the other hand, the manufacturers' task of selling $1,000,000 worth of consumer goods to retail customers is considerably larger than that of selling the same amount through wholesalers, if one measures the size of the task by the number of operations which must be performed and the number of transactions which must take place before the quantity of commodities is disposed of at a profit.

The development of sales quotas is a logical extension of sales planning, for the sales quota may represent a sales task set for the sales organization as a whole, or for a sales branch and sales territory, or for a salesman. The sales task may represent anticipated experience upon the basis of which expenditures are made or, at the other extreme, it may represent merely a vaguely hoped-for accomplishment. The usual basis for measuring the task is volume of sales either in dollars or in units of product. An estimate of the task in terms of dollars is more convenient from the viewpoint of figuring profits, expenses, and percentages; but the main objection is that it does not permit so true a picture of changes in actual volume of commodities sold, particularly in periods of rapidly changing prices, as does a quota expressed in terms of volume of product. Where the quota system is part of the general budget system, it is obvious that the volume of commodity production is of much greater importance to the production department than is the number of dollars representing sales.

The sales quota is sometimes the work of the sales manager, who, without consulting salesmen, makes an estimate of the possibilities of territory by examination of past sales and sets quotas for the men in various territories for the coming period. Sometimes the quota is part of an elaborate system whereby estimates of salesmen and branch managers are compared and combined with the estimates of home office officials to set up a sales estimate which is made the total sales quota for a period.

The quota, if it is to be carefully made, should be based upon the facts as they appear both in records of past performance and in regard to market possibilities and probabilities. Past performance is definite in so far as records and accounts are available. Market possibilities and probabilities are, on the other hand, vague and general. The most that can be claimed for many of them is that they are somewhat less inaccurate than pure guesses, upon the basis of which sales managers so often have to work.

The advantages of sales quotas, whether applied to the entire organization or to portions of it, are clearly the advantages of setting up a definite task against which actual performance may be appraised and upon the basis of which conclusions as to further action may be drawn. If the quotas are set on the basis of whim, prejudice, or careless guessing, discouragement and friction may be the result of the adoption of a quota plan. But whether the sales manager wills it or not, he is compelled to set up some basis, at least in

his own mind, whereby he judges the performance of sales personnel. It seems logical that careful attempts to set up an accurate basis should, in the main, be more desirable than the results of a more or less concerted attempt to ignore the existence of the problem.

47. TIFTON DAIRY MACHINERY COMPANY. Determination of Potential for Products as Basis for Sales Quotas

Early in 1946, the Tifton Dairy Machinery Company assigned its market analyst the task of making an exploratory study of the market for the company's products in order to determine whether reasonably accurate estimates of the potential for its various machines would be possible.

The first objective of the company was to ascertain the number of machines in use; the second was to estimate the potentials for each machine which the company manufactured. If realized, the executives believed the data obtained would be most useful in the determination of the relative sales efforts that should be devoted to the various products, in showing on which products the company was doing its best selling job, and in setting sales quotas for different territories. The management recognized that this research project would be a long one, and the analyst was allowed a year for this preliminary investigation. At that time, his work would be reviewed and the value of further research determined. No definite limit had been set for expenditures for the project, but the cost was expected not to amount to more than $15,000 or $20,000.

The Tifton company manufactured dairy machinery and distributed dairy supplies. Included among the dairy machinery manufactured were bottle fillers and cappers, pasteurizers, bottle washers, churns, coolers, and ice cream freezers. The company acted as a distributor for all types of dairy supplies, including disinfectants, measuring cups, milk racks, cans, bottles, bottle caps, and pails. The amount of jobber business, as compared with the machinery sales, varied; in 1946, about one-third of the business was in dairy supplies, but in normal times it averaged about 50% supplies and 50% machinery. Supplies and machinery were used for fluid milk, butter, cheese, concentrated milk, and ice cream. No accurate figures were available, but officials of the company estimated that Tifton, with sales of about $22,000,000 and 2,000 employees, was the largest concern in the field with about twice the volume of its nearest competitor. Sales for both companies were estimated at about 40% of the total. Although many small concerns sold dairy supplies and machinery, probably 80% to 90% of the total business was obtained by 20 or 30 firms. Little information was exchanged among the members of the association of dairy machinery companies, cooperation being limited to preparations for an annual exhibition.

Tifton marketed its products through its own salesforce of about 170 men operating from 15 branch offices, and through 36 distributors operating in

the less densely populated southern and western sections of the country. Salesmen customarily did not specialize in any of the company's products but sold the complete line to dairy products processors and dairy farmers. The sales department conducted continuous surveys of its customers in order to estimate their requirements and keep track of probable replacement.

At the end of December, 1946, the sales analyst reported on his operations during the year as follows:

> The first year of market research work having now elapsed, it is appropriate to review the work done, the conclusions reached, and the possibilities for the future. Neither the company nor the author having had any particular experience in this field, it was decided that the initial few months should be spent in investigation of the work done by others in this connection. It was immediately found that very few, if any, companies in similar lines of endeavor have done any appreciable amount of market analysis work. There was found a great divergence of opinion as to what constitutes proper market analysis work. Projects included analysis of the competitive position of the company's products, estimate of sales potentials, analysis of inventory policy, transportation policy, credit policy, customer preferences, etc. A good many of these functions are now performed in this company by other departments such as the Treasurer's Department. In general, I believe it can be said that the principal objective of market analysis is to develop and present such factual information as may be helpful to the Sales Department in increasing the flow of goods to our customers, and pointing out the areas or products in which sales effort would be most rewarded. In addition, it should give the Production and other departments such information as may be gotten on the probable future level of sales whereby they will be better enabled to schedule their operations and determine their policies. A further function of market analysis is to discover and watch significant trends, such as changes in the utilization of milk, changes in plant size, and location of the industry.
>
> Continuing with the conditions found among other companies in this or a similar line of endeavor, it was, as stated above, found that comparatively few companies engaged in market research as we have decided to define it. A great many manufacturers of consumer goods such as tooth paste, shoe polish, etc., are doing what they call market research. However, I believe that there is a fundamental distinction between these two types of analysis. The consumer goods producers in their market analysis operate on the theory that the market is practically limitless, and their endeavors are connected entirely with securing a larger share for themselves of this limitless market. This means, largely, studies of packaging, color, taste, and appearance. Manufacturers of producers' goods, on the other hand, such as ourselves, have a different problem. In this case the market is not limitless, and our analysis should be pointed towards determining not only the extent of the market, but its location geographically.
>
> After concluding the major portion of these interviews with other companies and government officials, it was found to be advisable to rearrange the internal records of the company in such form as would make them more amenable to statistical treatment. This involved a rearrangement of company sales records

from a fiscal year basis to a calendar year basis, and since the sales of this company are also subject to the normal seasonal variations experienced in the milk and dairy industry, the effect of this seasonal influence had to be calculated and removed. Having done this for the years from 1930 to 1946, the records were then in such shape that they could be used for further statistical analysis.

It was very soon decided that there are two major methods of establishing territorial potentials or setting territorial quotas. The first method we might call the break-down system, whereby a grand total for the domestic operations of the company is first obtained. This is then sub-divided into potentials for the various products and the various sales branches. The second method is what we might call the build-up method, where the potential is first set for the various products and the various branches and then accumulated to produce the grand totals. Since it would be very easy to get involved on a side track by using the build-up method, it was decided to try the break-down method first. For this reason, and also because it was felt that the figure by itself might prove useful, attempts were made to establish a method whereby the company total sales could be forecast one year in advance. It is believed that an appropriate method for doing this has been developed. Basically, there are two alternative methods of doing this also. The first one is to find some other series of economic data which moves up and down at the same time and to the same extent as the sales of this company. Some series should be picked which is forecast fairly generally, is of wide economic interest, is not tied to any particular industry, and which is generally considered reliable. The second method is the so-called lead and lag system whereby some other series is found which moves up and down to the same extent as our sales do, but does so ahead of time. One of each type was found. The most reliable system and the one which is used by most people is to compare the sales of the particular company with the series put out by the Department of Commerce entitled "Gross National Product." The second type of series—the so-called lead and lag system—was found to be not quite as reliable but extremely valuable. This is the Economic Trend Line. It is largely valuable as a check on otherwise derived forecasts. It was on the basis of this information that the forecast of $22,500,000 for our sales in the calendar year 1946 was made. This system was also followed in predicting sales of $22,100,000 for the calendar year of 1947. While the accuracy of either one of these predictions may be challenged, it is believed that they will prove to be close enough to justify the use of this system.

Having determined the probable total level of sales, the next problem involved the division of this total into our various geographical divisions, and into our various products. It should be immediately stated that as yet no completely satisfactory method of doing this has been found. Investigation is at this point still going forward on several methods whereby this can be done. Several indicators were tried and faults are to be found with all of them.

Since the series prepared by the Department of Economics entitled "The Gross National Product, National Income" proved so reliable in forecasting total sales, it was thought probable that information on income in various geographical divisions of the country should prove equally reliable in forecasting the sales within that particular area. This was found to be inaccurate. Currently,

it is believed that a combination of several factors as previously investigated individually would produce the desired results.

However, a great deal of the information necessary for this analysis is still lacking. The proposed system would be to divide the sales of the company into the five major divisions of the industry, viz., fluid milk, butter, cheese, ice cream, and concentrated milk. It has been found that the sales of fluid milk are directly proportionate to income. Therefore, for this product income payments can be used as a guide. There are also available data on the area production of each of the main items of manufactured dairy products. The exact method of putting all this information together and arriving at a percentage figure for each of our sales territories has not as yet been devised. As stated above, it is the problem which is currently receiving attention.

One of the large and unknown factors in this situation is the relative importance of the size of the plants producing these different products in the various areas. It was for this reason that information was obtained and tabulated on the sizes of manufacturing plants in our different sales territory. We now have that information, but its exact meaning is still not clear. While it is possible that we will sell more equipment and supplies to ten small plants than to one large plant producing the same amount of product as the total of the ten small ones, it is not known how much more.

This discussion brings to mind the two largest individual problems where complete information is entirely lacking. The first of these is the entire absence of any factual information from an authoritative or other source concerning the market milk industry. There is no information available on the exact amount of market milk produced in any section of the country or in the country as a whole. There is no information on the number of plants in this line of endeavor—their sizes, the equipment they use, or any information whatsoever about them. The only piece of factual information concerning the fluid milk and cream market is contained in one figure in a single pamphlet put out by the United States Department of Agriculture, and this is an estimate of the total amount of fluid milk and cream sold as such and for the purposes of market milk in the United States. There is no breakdown.

The second major field of ignorance concerns the amount, location, and character of processing machinery now in use. It is extremely difficult, if not impossible, to determine what percentage of the market we are now getting or can expect to get unless and until we know how much machinery there is in use. We do, of course, know how much machinery we have sold and where it is located, but the number, type, size, and location of competitive machines are entirely unknown. For this reason it would be highly recommended that we join with other manufacturers and governmental, or semigovernmental, agencies to institute a regular survey of the industry with a view to obtaining continuing data on the processing machinery of the dairy industry.

It is also believed that before we can determine with any exactness the importance of the variation in size of our customers' plants, we must become more familiar with our customers' uses of their machinery. This necessitates an exact knowledge of the amount of products handled by customers in different branches of the industry, and the number, types, and sizes of the machines they have in

use to handle that amount of product. Such a survey could be made on a sampling basis provided the sample was broad enough and properly selected.

To return to our chronological review of the past year, after attempting to break down the company total into area figures and finding that this was presently not possible, an analysis was made of the filler [1] and freezer machines in an attempt to determine whether the build-up method might prove feasible. Some time was spent on these two machines and results were obtained which are not believed to be conclusive, but which by themselves constitute an interesting and perhaps valuable insight into the market for those particular machines.

After completing those two studies, the information requested from the Department of Agriculture on the production of manufactured dairy products in our sales territories was received and a series of charts was constructed to show this situation.

That completes the review of work actually done and reports written in the past year.

It has been forcibly brought to mind that there is a very definite and distinct line of cleavage between the terms "potential market" and "quota." A quota may be interpreted as being that amount of machinery and supplies which any individual branch or individual salesman can reasonably be expected to sell within the ensuing year. A potential market, on the other hand, is the total demand for the type of products we handle, without consideration of our expected sales. It is my belief that both figures are of value. Distinction should, however, at all times be maintained between these two conceptions. The performance of a branch or of a salesman could then be measured as the percentage which the quota or actual sales bears to the potential market.

One large and important field of possible interest has not been investigated at all. This concerns the analysis of new uses for products sold by this company, new purposes for existing machines, and new fields of industry which we can serve with our existing types of machinery. In a previous report I touched lightly upon this subject.

While the Engineering Department is, of course, primarily interested in this field, it might be apt to point out that there are undoubtedly many other uses to which our machines can be put with little, if any, mechanical change. The use of fillers for such things as beer, carbonated beverages, and any other liquids or semiliquids, is one example. Pasteurization of such products as wine, orange juice, other fruit juices, etc., is another field which has been slightly touched, but which could possibly be greatly expanded. It might be proper to confine our efforts, first, to other food lines and subsequently to expand into various other fields. As previously stated, it is believed that our machinery could be very easily adapted to use in any industry where any liquid or semiliquid is heated, cooled, stored, conveyed, or placed in any sort of containers.

It might be quite within the bounds of possibility that this sort of investigation of new uses for our products might prove to be the most valuable contribution that market analysis could make to the company. Analysis of such market

[1] See Appendix A.

possibilities is definitely one of the proper functions of any market analysis operation. It would, of course, necessitate close cooperation between this department and the Engineering Development Department.

As the work of market analysis progresses, further fields of investigation and study will present themselves. Greater knowledge and experience and improved techniques will bring greater usefulness. It is my belief, and my suggestion, that work be continued on the matter of area and product potentials and quotas, and that the field of investigation of new uses for our products be entered upon. In the past year a wealth of information and factual data concerning the milk industry has been gathered. Its use by the company and its value to other individuals in the company will increase as knowledge of its existence becomes more general.

Appendix A. The Filler Market

Analysis of the market for Tifton bottle fillers brings forcibly to mind the tremendous sales opportunities in this field and the difference in success that has in the past resulted from the efforts of the several branches. Success in the sale of fillers is not, apparently, a matter of size of the branch, for the rather small Syracuse office, the comparatively large Boston office, and the rather medium-size Philadelphia office have shown better than average resales, while the small Cedar Rapids office, middle-size Baltimore and large Chicago offices all show less than average results.

Naturally, those offices having sold a large share of their potential market have a smaller future potential, but a larger replacement market, and vice versa.

The first problem of analysis of the filler market is the amount of fluid milk and cream sold in each territory. This cannot be solved with complete accuracy. There are no data available which give this information. In a publication of the U.S. Department of Agriculture (Farm Production, Disposition and Income from Milk, 1944–45, published April 15, 1946) there is one table (table 5, page 7) giving an estimate of the annual quantity of milk consumed as milk or cream off the farm. This is the national total of the milk we can seek to bottle on our machines. But there is no territorial breakdown. There is a solution, however, for it is generally agreed that there is a definite and close relationship between the consumption of fluid milk and income of individuals. Correlation analysis of the index of fluid milk consumption and the index on consumer income for a period of 18 years shows an almost perfect relationship. In a study entitled "Family Food Consumption and Dietary Levels" (U.S. Department of Agriculture Misc. Publ. No. 452, page 57) is found a table illustrating the increased consumption of milk resulting from higher food expenditures per person. Also, Professor Bartlett of the University of Illinois states (Bartlett, R. W., *The Milk Industry,* 1946, The Ronald Press, page 170 et seq.): "These studies show that changes in consumer income and price are the most important factors affecting changes in per capita sales of milk. Furthermore, for practically every city in this study, sales of milk fell during the depression of the thirties and rose again as incomes increased (without commensurate price changes)." It is believed to be logical, therefore, to assume that the national total of fluid milk consumption as estimated by the Department

of Agriculture can be apportioned among the various territories in the country in proportion to the consumer income in each territory. For this purpose the data published by *Sales Management* will be used, since they are commonly accepted and believed to be completely reliable. Exhibit 1 shows the resulting estimates of fluid milk consumption in each of our territories in the year 1945. We have, therefore, a reasonably close approximation of the actual amount of milk to be bottled in each territory.

Exhibit 1. Fluid Milk Consumption by Sales Territories, United States, 1945

Territory	*Milk Consumption (In millions of pounds)*
Baltimore	2,076
Boston	3,477
Cedar Rapids	814
Charlotte	1,580
Chicago	4,267
Cincinnati	2,155
Cleveland	1,636
Detroit	2,473
Los Angeles	2,473
New York	5,334
Philadelphia	2,720
Pittsburgh	1,721
St. Paul	1,482
San Francisco	1,903
Syracuse	1,697
Total branches	35,808
Pacific Coast Div.	1,861
Southern Div.	9,057
Total –distributors	10,918
U.S. total	46,726

SOURCE: National Total from U.S. Department of Agriculture. Detail computed as stated in text.

The second question is the matter of existing capacity in each territory. For this purpose an analysis was made of the records of all fillers sold. Serial number cards were tabulated and all fillers classified by location, age, type and size. Machines known to have been junked were excluded, and no considerations were given to machines sold prior to 1925 since it is felt that machines older than that have probably been junked or have at any rate changed hands so often that present location is entirely unknown.

It became obvious at the outset that some uniform method of comparison as between different types and sizes of fillers was required. Since they are all of varying capacities, it would be inaccurate to compare the number of fillers in New York City where they are of large capacity to the number in Pittsburgh where they are of smaller capacity. It was first considered best to convert all data on the numbers of fillers to hourly capacities in pounds or quarts of milk. This was discarded because of the wide differences in capacities resulting from method of operation, size of containers, types of product, experience of operators and similar difficulties. As an alternative it was decided to use numbers of valves throughout. While there are a few inequities here, the method has the advantage of uniformity,

lack of guesswork and a stable base needing no computations of a dubious character and no estimates concerning average sizes of containers, ability of operators or efficiency of plants.

The first step in the estimation of the market concerns the number of fillers necessary to replace those which have become obsolete or are fully depreciated. The Bureau of Internal Revenue allows a depreciation period of seventeen years for fillers, although our machines can and do operate that long and longer. No allowance is made for obsolescence by this Bureau. The larger and more efficient plants undoubtedly replace fillers within ten to twelve years, or less, yet these machines pass to progressively less efficient operators and do not actually pass out of existence during the period of their mechanically useful life. They cannot, therefore, be considered as being replaced from our standpoint until they are actually junked. It is therefore believed that fifteen years can be safely assumed as the normal period of use of a filler. Exhibit 2 shows the number of machines in each territory in each specified age group, together with the percentage of fillers in each territory in each age group. From this the conclusion is reached that fillers having a total of 36,659 valves, or approximately 5,237 seven-valve fillers, are due for replacement immediately. These are the fillers which are fifteen or more years old, and is approximately one-third of all fillers now in existence. Average age of all machines in each territory is also shown.

Before estimating the future sales possibilities of fillers in each territory it is of interest to compare the past performance of the various offices.

In order to arrive at an index of performance the number of valves in each territory is expressed as a percentage of all the valves in the country. Also, as reasoned above, the milk consumption in each territory is proportionate to income; so the income in each territory is expressed as a percentage of the national total. These two percentages are then compared, since it is to be expected that each branch percentage of valves should be, normally, the same as its percentage of income. The ratio of the percentage of valves to the percentage of income in each territory is therefore a measure of the percentage of attainment of objective, and the branches can be ranked accordingly. These data are expressed in Exhibit 3, in which the branches are listed in order of percentage of attainment of objective.

The estimation of the future market for fillers in each branch office now becomes a matter of rearrangement of data already developed. However, some estimate must be made of the amount of fluid milk which is bottled annually by a filler of a given size, or by each valve of a filler. In the Syracuse territory, which has the largest number of filler valves per unit of fluid milk, it is found that, if fillers of our manufacture bottle all the milk, they are operating at the rate of 202,000 pounds of milk per year per valve. It would therefore seem that this is the maximum rate to be expected, and since undoubtedly there are at least a few competing fillers in that area the figure must be lower than that. It should also be pointed out that from an engineering standpoint it is theoretically possible that each valve on a 7-valve-filler if operating at 80% of rated capacity for five hours every day in the year, filling only quarts, will handle approximately 941,700 pounds of milk. These are ideal conditions. No allowances are included for other sizes of containers, short runs, other products, overcapacity in a plant to take care of future expansion, repairs, inefficient operation, or any of the other factors which militate

Exhibit 2. Number of Fillers and Filler-valves, Classified by Age-groups and Territories

NOTE Number of fillers is number of valves divided by seven, thus it converts all fillers to equivalent number of 7-valve-machines "% of total in area" is the percentage of valves within each age group to total valves in area

Territory	1929 and prior			1930–1931			Total 1931 and prior			1932–1936			1937–1941			1942–1946			Total valves	Total fillers	Average age, in years
	No of valves	No of fillers	% of total in area	No of valves	No of fillers	% of total in area	No of valves	No of fillers	% of total in area	No of valves	No of fillers	% of total in area	No of valves	No of fillers	% of total in area	No of valves	No of fillers	% of total in area			
Baltimore	672	96	14 6	602	86	13 0	1,274	182	27 6	1,274	182	27 6	1,428	204	31 0	637	91	13 8	4,613	659	10.9
Boston	2,359	337	20 0	847	121	7 2	3,206	458	27 2	2,618	374	22 2	3,780	540	32 1	2,177	311	18 5	11,781	1,683	9 9
Cedar Rapids	161	23	8 7	147	21	7 9	308	44	16 6	336	48	18 1	735	105	39 6	476	68	25 7	1,855	265	8 1
Charlotte	259	37	8 0	189	27	5 8	448	64	13 8	889	127	27 3	1,036	148	31 8	882	126	27 1	3,255	465	8 6
Chicago	2,212	316	27 3	1,092	156	13 5	3,304	472	40 8	1,358	194	16 8	2,373	339	29 3	1,057	151	13 1	8,092	1,156	12 3
Cincinnati	1,197	171	21 6	616	88	11 1	1,813	259	32 7	1,064	152	19 2	1,365	195	24 7	1,295	185	23 4	5,537	791	10 5
Cleveland	1,295	185	29 3	441	63	10 0	1,736	248	39 3	875	125	19 8	1,176	168	26 6	630	90	14 3	4,417	631	12.3
Detroit	2,191	313	34 0	994	142	15 4	3,185	455	49 4	938	134	14 6	1,001	143	15 6	1,316	188	20 4	6,440	920	14 8
Los Angeles	301	43	11 2	280	40	10 4	581	83	21 6	637	91	23 6	952	136	35 3	525	75	19 5	2,695	385	9 3
New York	2,282	326	31 1	994	142	13 6	3,276	468	44 7	1,911	273	26 1	1,631	233	22 2	511	73	7 0	7,329	1,047	14.0
Philadelphia	3,696	528	32 8	1,785	255	15 8	5,481	783	48 6	2,429	347	21 5	2,191	313	19 4	1,183	169	10 5	11,284	1,612	14 7
Pittsburgh	1,344	192	26 1	847	121	16 4	2,191	313	42 5	875	125	17 0	1,428	204	27 7	658	94	12 8	5.152	736	12 8
St Paul	231	33	6 5	462	66	13 1	693	99	19 6	686	98	19 5	1,155	165	32 7	994	142	28 2	3,528	504	8.3
San Francisco	210	30	7 1	266	38	9 0	476	68	16 1	658	94	22 2	980	140	33 1	847	121	28 6	2,961	423	8 2
Syracuse	2,849	407	33 9	812	116	9 7	3,661	523	43 6	2,086	298	24 8	1,358	194	16 2	1,295	185	15 4	8,400	1,200	13 7
Total branches	21,259	3,037	24 3	10,374	1,482	11 9	31,633	4,519	36 2	18,034	2,662	21 3	22,589	3,227	25 9	14,483	2,069	16 6	87,339	12,477	11 8
Pacific Coast Div	651	93	15 2	371	53	8 7	1,022	146	23 9	658	94	15 4	1,330	190	31 0	1,274	182	29 7	4,284	612	8 3
Southern Div	2,338	334	12 4	1,666	238	8 8	4,004	572	21 2	3,822	546	20 3	6,874	982	36 4	4,179	597	22 1	18,879	2,697	8 8
Total distributors	2,989	427	12 9	2,037	291	8 8	5,026	718	21 7	4,480	640	19 3	8,204	1,172	35 4	5,453	779	23 6	23,163	3,309	
U S. total	24,248	3,464	22 0	12,411	1,773	11 2	36,659	5,237	33 2	23,114	3,302	20 9	30,793	4,399	27 9	19,036	2,848	18 0	110,502	15,786	11 0

Exhibit 3. TIFTON DAIRY MACHINERY COMPANY. Performance of Branches

Territory	% of U.S. filler valves	% of U.S. income	Ratio performance	Rank
Syracuse	7.60	3.63	209	1
Philadelphia	10.21	5.82	173	2
Boston	10.66	7 44	143	3
Pittsburgh	4.66	3.69	126	4
Cleveland	4.00	3.50	114	5
Detroit	5.83	5.29	110	6
Cincinnati	5.01	4 61	109	7
St. Paul	3.19	3.17	101	8
Pacific Coast Div.	3.88	3 98	97	9
Cedar Rapids	1.68	1.74	97	10
Baltimore	4.18	4.45	94	11
Southern Div.	17.08	19.39	88	12
Charlotte	2.95	3 38	87	13
Chicago	7.32	9.13	80	14
San Francisco	2.68	4.07	66	15
New York	6 63	11.42	58	16
Los Angeles	2.44	5.29	46	17

against ideal operations of every filler. All of these factors being large and unknown, it cannot be stated accurately just what capacity per valve should be used. It is known that it must be less than the figure of 202,000 found in the case of Syracuse, but how much less it is impossible to state. The estimate of future sales is therefore based upon varying figures of production per valve. As the first estimate the performance in Syracuse will be taken as the goal and the number of filler valves required in each territory to equal the Syracuse penetration of the market will be shown. This assumes that the Syracuse record is not only good, but is as good as can be expected. If Syracuse performance is achieved throughout the country, a total of 120,815 filler-valves would be sold, or the equivalent of 17,259 seven-valve fillers. If we then assume that this record in Syracuse is not ideal, that more fillers can be sold in Syracuse, it means we must assume declining output per valve. Additional assumptions are therefore made—first that output per valve is 191,900 pounds per year, and second 151,500 pounds per year and third 101,000. The first case examined, where output is 202,000 pounds, presupposes that all of the fillers in Syracuse territory are Tifton.

The second, 191,900 pounds, presupposes 95%, and the third of 151,500 pounds presupposes 75% of the fillers in Syracuse are Tifton. The figure of 101,000 assumes 50%. Exhibit 4 shows these assumptions and the resulting possible market for fillers in each territory.

If we assume that about 75% of the fillers in Syracuse are of our make, the 151,500 pounds of milk per year per valve figure, the result is that 308,422 filler-valves would be needed. Deducting the number now in use, 110,502, leaves 197,920 valves, or the equivalent of 28,274 fillers of seven valves each.

To this of course must be added the 5,237 fillers needed to replace the over-age machines now in use. The total therefore becomes 33,511 seven-valve fillers.

Exhibit 4. TIFTON DAIRY MACHINERY COMPANY. Market for Tifton Fillers

Additional Filler Capacity Necessary to Handle 1945 Volume of Fluid Milk at Varying Levels of Productivity. Existing Capacity Has Been Deducted.
Levels of Productivity, in Pounds per Year per Valve

Territory	101,000		151,500		191,900		202,000	
	Valves	Fillers	Valves	Fillers	Valves	Fillers	Valves	Fillers
Baltimore	15,941	2,277	9,090	1,299	6,205	886	5,664	809
Boston	22,645	3,235	11,170	1,596	6,338	906	5,432	776
Cedar Rapids	6,205	886	3,518	502	2,387	341	2,175	311
Charlotte	12,389	1,770	7,174	1,025	4,978	711	4,567	652
Chicago	34,156	4,879	20,073	2,867	14,143	2,021	13,032	1,862
Cincinnati	15,799	2,257	8,687	1,241	5,693	813	5,131	733
Cleveland	11,781	1,683	6,382	912	4,108	587	3,682	526
Detroit	18,046	2,578	9,883	1,412	6,447	921	5,803	829
Los Angeles	21,791	3,113	13,628	1,947	10,192	1,456	9,548	1,364
New York	45,483	6,498	27,879	3,983	20,467	2,924	19,077	2,725
Philadelphia	15,646	2,235	6,670	953	2,890	413	2,181	312
Pittsburgh	11,888	1,699	6,208	887	3,816	545	3,368	481
St. Paul	11,144	1,592	6,254	893	4,195	599	3,808	544
San Francisco	15,881	2,269	9,600	1,371	6,956	994	6,460	923
Syracuse	8,400	1,200	2,801	400	443	63	0	0
Total branches	267,195	38,171	149,017	21,288	99,258	14,180	89,928	12,847
Pacific Coast Div.	14,142	2,020	8,000	1,143	5,414	774	4,929	704
Southern Div.	70,795	10,114	40,903	5,843	28,317	4,045	25,958	3,708
Total district	84,937	12,134	48,903	6,986	33,731	4,819	30,887	4,412
U.S. total	352,132	50,305	197,920	28,274	132,989	18,999	120,815	17,259

INCIDENTAL INFORMATION RESULTING FROM FILLER STUDY

Several items of interest were uncovered while doing this work. They are not pertinent to the main issue; so they are being presented separately.

One is the matter of filler sizes. Average number of valves per filler was computed for each territory for each year. It was found to be universally true that fillers were larger prior to 1930, average size fell sharply in 1930 and 1931, grew during the thirties and became much larger during the war. There was a market increase in average size, with the introduction of the new models in 1934–35. The drop in size in 1930–31 is doubtless due to the sudden popularity of the X and XI fillers. It was also found that the average size in 1946 in almost all areas is greater than at any time in the past. Contrary to expectations, the largest fillers are found in Baltimore, Charlotte and San Francisco, with New York and Chicago following. This is for fillers sold in 1946 whereas if all fillers in operation are considered, New York does have the largest, followed by Chicago and Cleveland. The weighted average size of all fillers in existence today in the territories of our domestic branches, excluding distributors, is now 5.994 valves per filler. Those sold in the year 1946 averaged 8.453 valves per filler. No relationship was found to exist between average size of fillers and number of fillers sold.

It was also found that those branches which seem to have excelled in filler sales

also have greater proportions of fillers in the older age groups. While the age of fillers in all territories did not show great variation, the branches of Syracuse, Detroit, Philadelphia, and Cleveland all had better than average performance ratings and all had a larger than normal percentage of fillers in the older age groups. Boston is the outstanding example of excellent performance and a small percentage of older fillers, indicating not only good performance in the past but a timely replacement program. As a result of good performance in years past, but lack of a replacement program some of these branches which have a good over-all record also have at present a large replacement market with many over-age fillers to be traded in.

Exhibit 5 shows the number of filler valves, and equivalent number of seven-valve fillers, sold since January 1, 1945, together with the percentage this is of all fillers in each area. It also shows the percentage of all fillers made in that period which have been sold in each area. The same performance ratio is shown. It is realized that this period of 1945–46 is not normal and too much reliance or stress should not be placed upon it. It will, however, be noted that Syracuse still ranks first in performance, Boston is well above average and that St. Paul is second only to Syracuse. Philadelphia and Pittsburgh show a great drop.

Exhibit 5. TIFTON DAIRY MACHINERY COMPANY. Filler Sales, by Territories—1945–1946

Territory	No. of valves	No. of fillers	% of area total	% of 1945–1946 U.S. total	% of U.S. income	Performance ratio	Rank
Baltimore	322	46	7.0	3.16	4.45	71	14
Boston	1,071	153	9.1	10.51	7.44	141	5
Cedar Rapids	203	29	10.9	1.99	1.74	114	8
Charlotte	518	74	15.9	5.08	3.38	150	4
Chicago	553	79	6.8	5.43	9.13	59	16
Cincinnati	616	88	11.1	6.04	4.61	131	6
Cleveland	301	43	6.8	2.95	3.50	84	13
Detroit	700	100	10.9	6.87	5.29	130	7
Los Angeles	343	49	12.7	3.37	5.29	64	15
New York	245	35	3.3	2.40	11.42	21	17
Philadelphia	504	72	4.5	4.95	5.82	85	12
Pittsburgh	329	47	6.4	3.23	3.69	88	11
St. Paul	581	93	16.5	5.70	3.17	180	2
San Francisco	462	66	15.6	4.53	4.07	111	9
Syracuse	686	98	8.2	6.73	3.63	185	1
Total branches	7,434	1,062	8.5	72.94	76.63	95	
Pacific Coast Div.	637	91	14.9	6.25	3.98	157	3
Southern Div.	2,121	303	11.2	20.81	19.39	107	10
Total district	2,758	394	11.9	27.06	23.37	116	
U.S. total	10,192	1,456	9.2	100.00	100.00		

48. BURROUGHS ADDING MACHINE COMPANY (B). Establishing Sales Quotas

In the fall of 1950, the market research division of the Burroughs Adding Machine Company was preparing to issue the new equipment sales quotas

for the year 1951. Currently, the company's total quota was based upon the productive capacity of its plant and the past sales record adjusted to take account of forecasted economic conditions. Such a forecast was made annually by the market research division in conjunction with the services of a consulting economist. Once the company quota was determined, however, it became necessary to subdivide it into branch and salesmen's quotas.

Up to 1946, the market research division had used 10-year moving averages of each branch's past performance, and to this figure had applied a company factor which adjusted the moving averages so as to take account of any change in total expected sales in the coming year. This method of deciding quotas, however, had been found unsatisfactory and in the year 1947, the members of the market research division had started to use the form given in Exhibit 1, which apportioned the company's quotas to each of the 3,072 counties in the United States.

Exhibit 1. BURROUGHS ADDING MACHINE COMPANY

COUNTY_____ BRANCH_____

STATE_____ DIVISION_____

Year										
Sales Quota										
Sales Average 10 Years										
% of Burroughs Sales Total										
% of Industry Sales Total										
Personal Income										
Total Population										
Employment										
Taxable Payroll										
No. of Business Enterprises										
Sales Factors	Per Cent	Weight	Per Cent	Weight	Per Cent	Weight	Per Cent	Weight	Per Cent	Weight
Sales Average										
Burroughs and Industry										
Income and Population										
Social Security										
Valuation										

The statistics that were collected for each county were: a 10-year moving sales average, Burroughs sales in the county for the most recent year as a per cent of total Burroughs sales, industry sales in the county for the most recent year as per cent of total industry sales in the country, personal income, and total population; also the following social security statistics: total employment, taxable payroll, number of business enterprises, all expressed as per cents of national totals. All these items were not used in determining the quota, some of them being recorded to see whether any correlation existed which might make them valuable in determining sales quotas in the future.

The actual quota was determined as follows:

In 1947, each 1948 branch quota was determined by giving a weight of 30 to the 10-year moving sales average of the branch; a weight of 30 to the total of the per cent of industry sales in each county and the per cent of Burroughs sales in each county. A weight of 20 was given to the sum of population and personal income; and a weight of 20 to the sum of the social security figures (employment, taxable payroll, number of business enterprises).

In 1948, it was found that social security figures had a closer correlation to sales than income and population. Thus for determining the 1949 quotas, the social security figures were given a weight of 30 and income and population a weight of 10.

In determining the 1950 quota, several further refinements in the procedure were made. The market research division found that personal income and total population were not a satisfactory index for determining office equipment sales. Thus this factor was dropped from the calculations.

The market research director also felt that a 10-year moving average was inaccurate because it included the war period which distorted the result. Thus he decided to begin using the average of the postwar years (1946–) until 1951, after which time a 5-year moving average was to be used.

Instead of using most-recent-year Burroughs sales and industry sales in each county, the market research director decided to increase the weighting of the postwar years over that assigned to the 10-year moving average and to drop most-recent years as a factor, also increasing all industry sales weighting from 15 (½ of 30) to 20.

In the social security figures, the market research director decided to cease using "taxable payroll" and "number of business enterprises." These were found to vary so closely with employment as to make it seem unnecessary to use all three of these factors. Furthermore, a refinement was made in the employment figures. The IBM Corporation Service Bureau was prepared to make various tabulations of the social security figures for all members of the industry. Burroughs had requested that IBM tabulate the employment figures according to groupings of class of business, thus allowing the company more readily to weight the employment figures, as the number of employees in agriculture, mining, manufacturing, service industries, and unclassified fields were all given a weight of X. Employment in construction, retailing, utilities, and wholesale establishments was given a weight of Y. Employment in financial institutions was given a weight of Z. These weighted employment figures were then used to ascertain the employment index in any given county and were given a weight of 30 in figuring the final quota. Past performance was given a weight of 50 and the industry sales figure in the particular county was given a weight of 20. In this way, it was possible to get a per cent of total quota for each county throughout the United States. Applying this figure to the total dollar quota determined previously, the

quota in dollar terms for each county was obtained. Adding the counties within each branch thus gave the quota for each branch.

A further refinement of quota was made by splitting the dollar quota for each branch by classes of customers. These were classified as banks, other financial institutions, government, public service, manufacturing, wholesale, retail, and general. The quota for each class was determined by averaging the per cent of branch dollar sales sold to the class in each branch with the per cent of total company dollar sales sold to all classes in the branch in the preceding 30 months as 50 per cent weighting and the remaining 50 per cent distributed to classes of customers on the basis of employment by such classes in each branch.

The quota was also broken down by product lines. This was based exclusively on the per cent of total dollar sales resulting from the sale of a product line in each class of customer for the company as a whole. Thus each branch then had a total dollar quota, a quota for each class of customer, and a quota for each product classification. No breakdown was made to obtain monthly quotas other than dividing the annual quota by 12, although it was admitted that in some areas such as Florida, seasonal factors had considerable influence. All quota determination to the branch level was done in the home office and sent to each branch on the form shown in Exhibit 2, copies being sent to the regional managers and the general sales manager. Each branch subsequently sent 10-day "flash reports," giving its performance as a per cent of quota. These flash reports were posted graphically on a chart in the general sales manager's office. Thus at a glance he could tell each branch's performance. Monthly reports which were audited by the regional offices, and six-months reports which were broken down by salesmen were also submitted. These detailed reports were given to the general sales manager approximately 4 days after the close of the period which they covered. The general sales manager was further in possession of reports, prepared by the Market Research Division from data issued by the Office Equipment Manufacturers Institute, which showed the company's performance in each county in relation to the office equipment industry. Each member company of the Office Equipment Manufacturers Institute submitted its percentage figures in each of 556 counties in the United States, which accounted for 90% of the national office equipment sales. The Institute subsequently sends to each member figures showing the per cent of the total industry sales for each county. Thus each company could observe its position in the market without disclosing sales figures to competitors. It was the branch manager's responsibility to apportion his branch's quota among the salesmen. The company used what it called "the block system."

A block was a geographical area, or in some instances it was an individual account, or a building. In all cases it was a sufficiently small segment of the territory so that it could be transferred *in toto* whenever it was decided to

Exhibit 2. Burroughs Adding Machine Company

BRANCH QUOTA FOR YEAR

Branch _____ Year _____ Date _____

COUNTY QUOTAS

County and State	Quota	County and State	Quota	County and State	Quota
				Total Branch Quota	$

PRODUCT QUOTAS

Class	Number of Units	Historical or Av Rates	Quota	% of Tot Quo.
F—Sensimatic		.000854		
Microdim		.000214		
S—Calculator		.001900		
8-9-10	———	———	———	———
Adders		.004484		
Bookkeepers		.001396		
Cash Machines		.002637		
Val. and Receipting		.001226		
20-30	———	———	———	———
Banks		.000352		
Commercial		.000273		
70—Type. Acct'g		.000343		
Chairs		.020212		
Secondhand	———	———		
Rental—Misc.	———	———		
Total				

LINE OF BUSINESS QUOTAS

	Quota	% of Tot Quo
Banks		
Other Financial		
Government		
Public Service		
Manufacturers		
Wholesale		
Retail		
General		
Total		

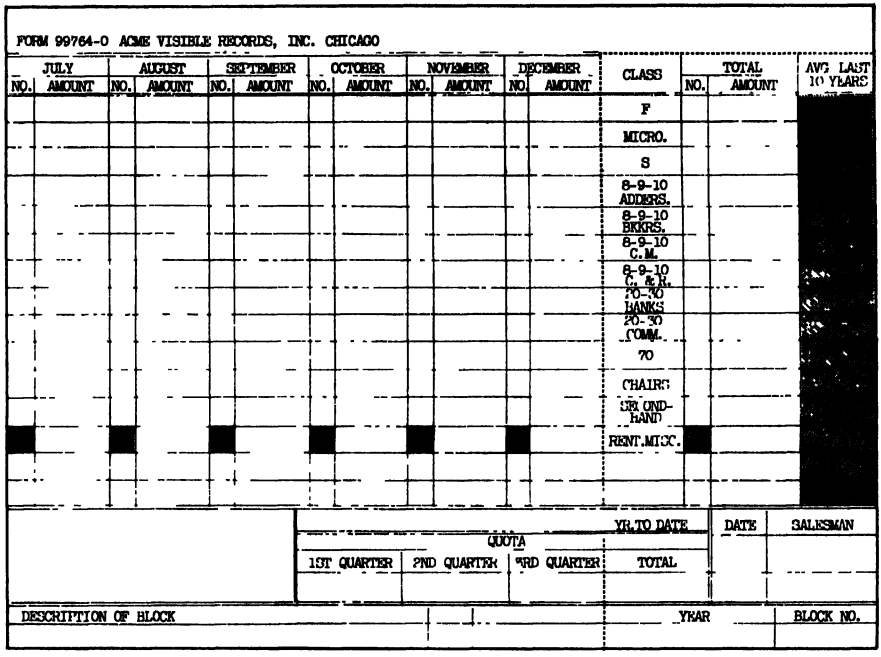
Printed in U. S. America

Form [illegible]—1959-11-60-Methods (JB1468)

change territory assignments. The block record (Exhibit 3) indicates current sales by product categories and average sales for a period of ten years.

The quota for each block was determined on the basis of the relation of 10-year moving averages for each block to total branch 10-year average applied to current branch total quota. The total of the block quotas in his territory was the salesman's quota. In the opinion of executives in the company there were two basic advantages to the block system. First, it resulted in an equitable assignment of territories and quotas, and secondly, the block

Exhibit 3. BURROUGHS ADDING MACHINE COMPANY. Block Record


FORM 99764-O ACME VISIBLE RECORDS, INC. CHICAGO

JULY NO.	JULY AMOUNT	AUGUST NO.	AUGUST AMOUNT	SEPTEMBER NO.	SEPTEMBER AMOUNT	OCTOBER NO.	OCTOBER AMOUNT	NOVEMBER NO.	NOVEMBER AMOUNT	DECEMBER NO.	DECEMBER AMOUNT	CLASS	TOTAL NO.	TOTAL AMOUNT	AVG LAST 10 YEARS
												F			
												MICRO.			
												S			
												8-9-10 ADDERS.			
												8-9-10 BKKRS.			
												8-9-10 C.M.			
												8-9-10 C. & A.			
												20-30 BANKS			
												20-30 COMM.			
												70			
												CHAIRS			
												USED HAND			
												RENT.MISC.			

QUOTA 1ST QUARTER	QUOTA 2ND QUARTER	QUOTA 3RD QUARTER	QUOTA TOTAL	YR.TO DATE	DATE	SALESMAN

DESCRIPTION OF BLOCK | YEAR | BLOCK NO.

records made it possible for executives as well as the salesman to observe how well the territory was being covered. This facilitated the more precise location of poor performance. If a branch was below quota, for example, this would be noticed by the general sales manager, who would call either the regional or branch manager's attention to this fact. The latter would then look over the records of salesmen's performance and locate the poor performers; then by examining the block records, he could tell exactly where the salesman was not getting the desired results. Periodic examination of the block records made it possible to see that all territories were being fully covered. Thus if a salesman was meeting his total quota while leaving some blocks in his territory unattended, the situation would be noticed by the branch manager, who could then take appropriate action even to the extent of transferring these blocks to another man's territory.

CASES IN BRIEF

1. The Arthur Machinery Company, located in the Middle West, produced a complete line of packaging machinery in over 50 models intended for both dry and free-flowing products and liquids. The usual process consisted of a number of operations involving the use of several machine units in order to attain an absolutely automatic cycle. The majority of sales, however, consisted of automatic sets

ranging in price from $10,000 to $25,000, depending on the speed of operation and the complexity of the package used. Occasionally, individual units were sold to small manufacturers for certain operations.

The sales of the Arthur Machinery Company increased steadily over a period of years, declined during the depression of the thirties, and resumed advances in the latter part of that decade. The principal purchasers were found in the food industry, the soap industry, among manufacturers of household products, and pharmaceutical manufacturers. The Arthur company sold to these industries through a salesforce of six men who were paid a drawing account and commissions of 5% on total sales. These men were technically trained in the problems of packaging and earned between $10,000 and $30,000 annually in commissions.

The flow of orders was typically uneven, and the preparation of a production schedule was difficult. The sales department was therefore asked to prepare a sales budget. It was hoped that a better coordination through production and sales could thus be attained with subsequent economies. It was therefore necessary to make a definite sales estimate, broken down if possible by types of machines and periods during the year. It was proposed that each salesman be asked to estimate the probable sales of different machines to each of his customers at the beginning of each quarterly period. Sales executives believed that personal contact with customers was a more accurate means of soliciting sales than could be attained by any home office. When the budget form had been sent in by the salesmen, it was kept on record in the home office and was subject to revision on the basis of subsequent visits by salesmen.

This plan was adopted and, when the sales budget had been in operation slightly over a year, a review of the results showed that the percentage of sales actually realized to budget sales varied from 40% to 60%. Although this realization displayed a certain uniformity between months, an analysis of budget sales realized to total sales budgeted by accounts revealed a less favorable picture. There, the percentage of realization ranged from 16% to 52%. Because much of the business estimated in the budget had failed to materialize and in part had been replaced by other sales which had not been forecast by salesmen, certain company executives questioned the value of the procedure. Proponents urged, however, that inaccuracies were inevitable in the introductory period, and that with improvements in technique more use of this forecast could safely be made. It was believed that a composite index figure for the various industries served, which would indicate the probable trend of sales, might be developed and that eventually a satisfactory index would be arrived at.

What should be done?

2. In June, 1946, Lexington Electric Products Company announced the adoption of a new compensation plan for the salesforce of the lamp and fixture division. In that plan, there was established for each salesman a "bogey" of sales volume which he was required to sell before he was entitled to a bonus. This bogey was to be calculated as follows:

"*a.* His salary, plus his travel expenses, plus or minus a 'grubstake' established as a base.

"*b.* His bogey is this base capitalized at 2% or in other words, it is the base multiplied by 50. Any sales made by the salesman in excess of his bogey will be subject to a bonus payment amounting to 1% of the net sales volume.

"The grubstake can be either nothing at all, a plus figure, or a minus figure, depending on the condition of the territory at the time the plan goes into effect or at the time a particular territory is taken over by the salesman who will cover it. The grubstake can be established only after the figure has been recommended by the division manager and approved by the general sales manager of the lamp and fixture divisions."

Does this procedure provide a soundly

conceived sales task for each salesman and sales district?

3. The Dorward Chemical Company manufactured a high-price nonvolatile antifreeze solution for use chiefly in automobile radiators. It divided the country into four districts for purposes of sales administration, in each of which worked from two to eight salesmen under a district manager. The districts followed county lines rather than state lines, since they were based upon trading areas of wholesale grocers. Salesmen were paid salaries and travel expense, plus an annual bonus for sales larger than quotas set. If a salesman sold 105% of his quota in any one line, he received a bonus of 1½% of his annual salary. If the district also reached 105% of the quota for the line, each salesman received an additional 1½% bonus. Quotas that would be fair both to the salesman and to the company thus became very important. The executives of the company therefore decided that a study should be made to develop market potential factors which might enable them to judge with some degree of accuracy the extent of the market in different parts of the country and enable them to set sales quotas which were based on something beyond past results. A wide variety of factors was considered, but a method had to be developed to select and combine the proper factors. It was proposed that certain steps be taken, including the following:

1. Tabulate sales of antifreeze and all factors by sales districts.
2. Reduce sales and factors to a per car basis for each sales district.
3. Determine the percentage of each per car amount to the United States average.
4. Plot these percentages on charts, using one chart for sales and one for each factor.
5. By visual comparison, select that factor whose graph correlates most closely with sales.
6. Plot the discrepancies or "residuals" between these two to make subsequent selection easier.
7. By visual comparison, select other factors which correlate with the residual graph.
8. By multiple correlation, combine all selected factors into one average, which gives the potential on the basis of per car percentage of United States average.
9. Multiply each potential by the corresponding number of cars, find the total of these products, and determine the percentage that each bears to this total. This is the potential on the basis of percentage of total United States.

Is this method likely to achieve the desired results?

4. What is meant by the "break-even volume" as related to the sales department? How is the break-even point determined? Is knowledge of the break-even point useful to the sales manager? To the branch manager? To a salesman?

5. What are the merits and weaknesses of the following factors sometimes used in the determination of potential sales and sales quotas: population, magazine circulation, income tax returns, industry sales, telephone homes, number of home lighting customers, bank deposits, census of business, retail sales per capita?

6. A company which traveled 15 salesmen covering the United States and selling several luxury lines going to different classes of outlets used a quota plan based upon an estimated territory potential. Such factors are considered as population, income tax returns, number of towns of various size, and number of outlets or dealers in the line. These are gathered together and the results modified by the general business and industry situation to arrive at equitable quotas. They are administered by a process of setting quotas covering the personal sales of the salesmen, excluding mail orders, although credit is given for them. These quotas are reviewed every two weeks and at the end of each month, the salesman is given a written report on his performance. Furthermore, the quotas are used as a basis for sales contests.

Are the elements of the plan sound?

7. The Machine Tool Corporation, a large manufacturer of machine and metal-working tools, which were sold throughout the United States, was considering a revision of its methods of assigning quotas to salesmen and branch offices.

Under the system in operation, each branch manager was required to compile a complete list of all potential buyers of the company's products in his district. An estimate was then made as to the amount of time required for each salesman to solicit such customers, and each prospect was made the responsibility of a single salesman. Also, when making sales plans for the year, each salesman had been asked to submit estimates as to the amount he believed it possible to sell to each prospect.

The sales department, with the assistance of the research staff, annually estimated the sales volume. To arrive at this estimate for different classes of machines, department officials studied census information, economic conditions, and business conditions and considered the probable effects of these factors on the total sales of products similar to those manufactured by the Machine Tool Corporation. An estimate was then made of the share of this total estimated sales figure which the company should obtain.

The department executives then divided the total sales possibilities for the company among the branch offices, mainly on the basis of past sales, although use was made of all available information about conditions. When the branch managers were fully satisfied with the quotas assigned to them, they reassigned them to the salesmen. Since salesmen had been asked previously to make out estimates of sales to specific customers, the reassignment became merely a matter of reconciling salesmen's estimates with the estimates from the home office.

The company had been very much dissatisfied with the lack of accuracy in its sales estimates.

What changes might have been suggested to improve the degree of accuracy?

8. Sales managers at times have differed widely concerning the use of quotas for salesmen. Some say that important results can be secured by carefully developed quotas because these quotas take into account potential business and do not depend merely upon continuance of past business as a standard. The other sales managers argue that quotas make better men self-satisfied, discourage weak men, and lead to high-pressure selling which may have undesirable consequences for the company.

Can these opposing viewpoints be reconciled?

9. Is the use of quotas consistent with the policy of selling what the consumers and dealers want?

10. The Williamstown Pulp and Paper Company operated a large pulp and paper mill in the western part of Massachusetts, distributing pulp to other paper manufacturers and paper to wholesalers for resale to the printing and publishing trade. The sale of both chief products of the company tended to fluctuate with general business. Company records gave the total net sales by territories over a period of years. Practically all the pulp sales and a portion of the sales of paper were made on large contracts.

The officials of the company had been unable to find a satisfactory basis upon which to construct a sales quota for each territory. A newer member of the staff suggested that the trend line of the company's growth of sales be used.

Should the officials have adopted this suggestion? If so, explain its advantages and disadvantages. If not, what substitute should have been suggested to the officials? Explain.

C. DISTRICTING OF SALES TERRITORIES; ROUTING OF SALESMEN

The division of the sales task and its subdivision into specific jobs are portions of sales planning work to which too little attention has been devoted in the past. The gradual development of data concerning the potential markets, additional industry information, facts concerning buying habits and buying behavior of many groups, give to the modern sales manager in many, but by no means all, lines a more definite basis for planning his task and subdividing it so that it may be assigned to subordinates. Districting of sales territories constitutes one phase of the breakdown of the total selling job into manageable units. If the selling task includes making sales and deliveries over a wide territory, sometimes within a nation, sometimes over the entire world, it becomes advisable to divide it on a number of different bases, both functional and territorial. The choice of territorial divisions requires a detailed knowledge of the market and of buying habits. From one point of view, the starting point for the choice of territorial units or districts is the salesman's territory, that is, the number and location of customers who can be solicited most effectively and economically by a single salesman. The number of accounts handled by the individual salesman will depend upon the frequency of his visits to customers, the location of products and customers, the character of his product, whether the demand is seasonal or otherwise, and transportation facilities. The size of the territory for supervision of salesmen will depend upon these factors plus the supervisory ability of the average branch or district manager, that is, the number of men whom he can supervise effectively in addition to performing other duties which may be required of him. It is evident that basically the objective is that of determining the task from the viewpoint of the sales personnel and of developing divisions of that task which will be most suitable for effective and economical performance.

The routing of salesmen as a practical operation is not difficult once the task to be performed is determined, but it is essential that the work to be done by the salesmen be decided upon before any attempt is made to provide a schedule according to which the work is to be performed. Proper routing of salesmen should conform to the following requirements: (1) the task should be one which the salesman can perform comfortably without overwork and yet which will keep him busy for the period of the working day; (2) provision should be made for sufficiently frequent return to headquarters or to home to provide stability of social contact and remove certain psychological disadvantages which arise from longer trips; and (3) economy of the salesman's time and economy of travel expense should be considered. In order properly to route salesmen, therefore, a sales executive should know the frequency of a salesman's calls upon customers, the time required

to handle customers and prospects, the character and details of the transportation upon which the salesman must depend, and the frequency with which he is expected to report at his headquarters.

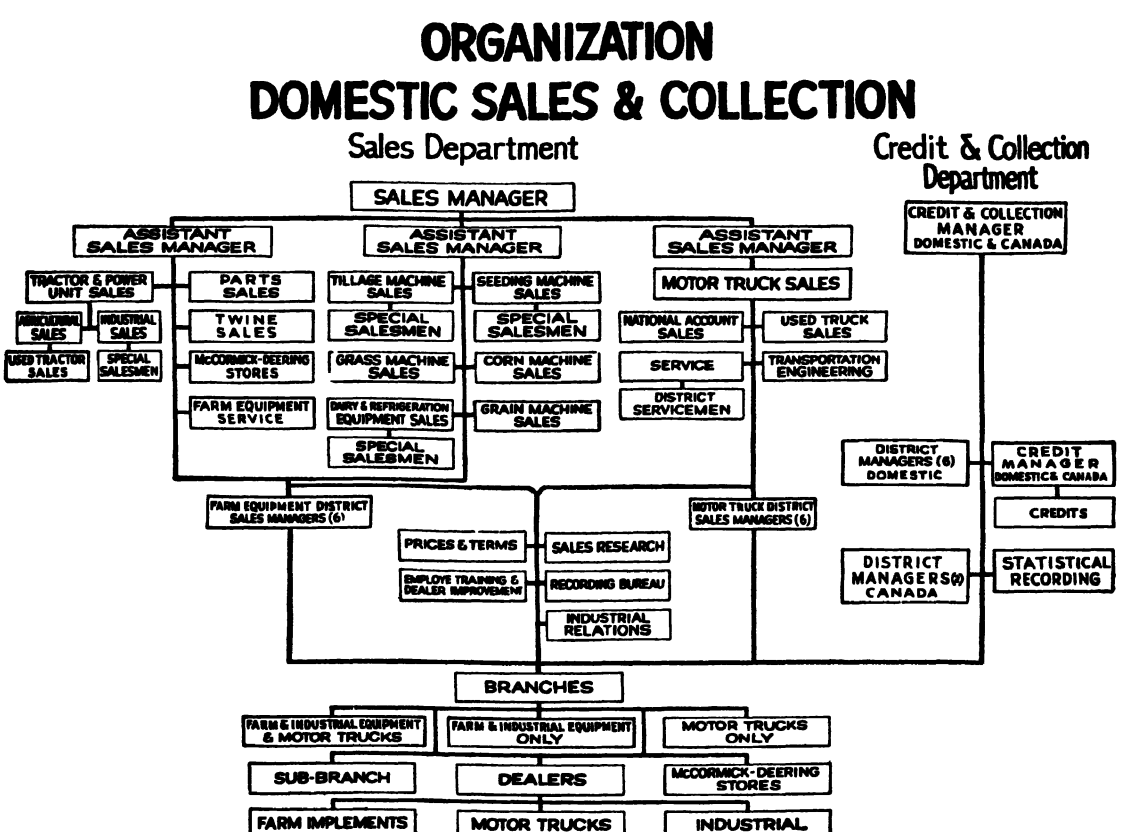
49. INTERNATIONAL HARVESTER COMPANY. Sales Districts [1]

Three separate organizations were responsible for selling Harvester products formerly handled by the old Domestic and Canadian Sales Department (Exhibit 1): Motor Truck Sales Department, Industrial Power Sales Department, and General Line Sales Department. In addition to these, the Steel Division Sales Department was concerned largely with selling steel to other divisions of the company and to certain large outside users. The Motor Truck Sales Department was responsible for the sale of International motor trucks only. Its selling was carried on in part through local dealers and in part through company retail outlets. The department had approximately 4,800 dealers, the majority of whom were selling other products of the company. Forty-six company branches handled both trucks and general line products, while 38 sold only trucks. The selling effort of the Motor Truck Sales Department and its dealers covered both farm and urban users. While the majority of trucks in terms of units was sold through independent dealers who handled mainly standard trucks, light-heavy and heavy trucks, requiring highly specialized technical knowledge, were sold usually through the company's own organization.

The Industrial Power Sales Department was responsible for sales of crawler-type tractors, wheel-type industrial tractors, and Diesel and gasoline engines, which were sold both as motive power for industrial equipment made by other manufacturers and as stationary power units under the International name. The Manager of Sales, Industrial Power Division, supervised two separate types of sales. One assistant manager assisted by 22 zone managers was responsible for sales to distributors; a second assistant manager supervised sales to manufacturers who incorporated Harvester products with their own equipment. Sales to manufacturers were direct from factory to customer (Exhibit 2). In the case of distributors' sales, the customer for industrial power equipment was generally a contractor, a government department, a logging company, oil field company, or some other large concern. Industrial power distributors had exclusive territories, with each distributor covering a large area, often an entire state or parts of several states. By agreement, when goods were sold in another distributor's territory, a fee for delivery services was paid by the selling distributor to the distributor into whose territory the goods were shipped. In the case of nonmilitary sales made

[1] Adapted from a case entitled *International Harvester Company: Divisional Organization*, by permission. Additional background information concerning International Harvester Company may be secured from any of the standard sources, such as Poor's or Moody's *Manual of Industrials*.

Exhibit 1. INTERNATIONAL HARVESTER COMPANY



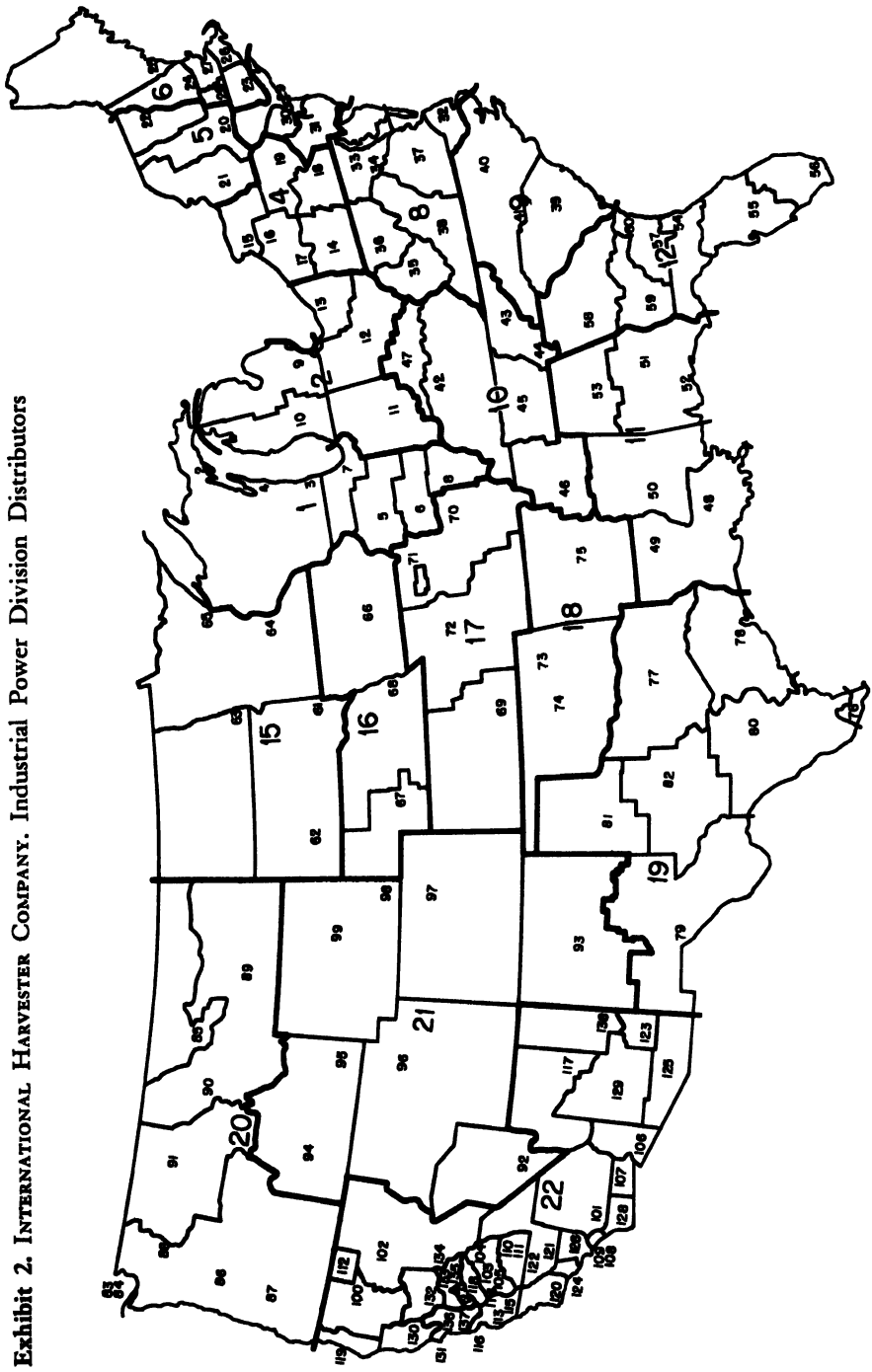


Exhibit 2. International Harvester Company. Industrial Power Division Distributors

			IH Control Branch
	ZONE 1		
1.	Bark River Culvert & Equipment Co	Eau Claire, Wis.	Eau Claire
2.	Bark River Culvert & Equipment Co	Bark River, Mich.	Eau Claire
3.	Bark River Culvert & Equipment Co	Milwaukee, Wis	Eau Claire
4.	Bark River Culvert & Equipment Co	Green Bay, Wis.	Eau Claire
5.	A. E Hudson Co.	East Peoria, Ill	Peoria
6.	A. E. Hudson Co.	Springfield, Ill	Springfield, Ill.
7.	R C. Larkin Co.	Chicago, Ill.	Aurora
8.	E W. Werner Motor Co	Salem, Ill.	Terre Haute
	ZONE 2		
9.	Wolverine Tractor & Equipment Co	Detroit 3, Mich	Saginaw
10.	Wolverine Tractor & Equipment Co	Grand Rapids 3, Mich	Grand Rapids
11	Indiana Equipment Co, Inc.	Indianapolis 4, Ind	Indianapolis
12	The W W. Williams Co	Columbus, O.	Columbus
13.	The W. W. Williams Co	Independence, O	Cleveland
	ZONE 3—(Not Established)		
	ZONE 4		
14.	Atlas Equipment Corp.	Pittsburgh 12, Pa	Pittsburgh
15	Dow & Co., Inc	Buffalo 7, N Y	Buffalo
16.	Freeborn Equipment Co, Inc.	Olean, N Y	Buffalo
17	Freeborn Equipment Co, Inc.	Oil City, Pa	Buffalo
18.	State Equipment Co.	Harrisburg, Pa	Harrisburg
19	State Equipment Co	Kingston, Pa.	Harrisburg
	ZONE 5		
20	Milton-Hale Machinery Co.	Albany, N Y.	Albany
21.	Milton-Hale Machinery Co	Syracuse, N Y.	Syracuse
22.	Vermont Road Equipment Co.	Montpelier, Vt	Albany
	ZONE 6		
23.	The W I. Clark Co.	New Haven 2, Conn.	Boston
24.	R C. Hazelton Co	Manchester, N H	Boston
25	Main Truck-Tractor Co.	Portland 5, Me.	Boston
26	Tractors, Inc.	Providence, R. I.	Boston
27.	United Equipment Corp.	Newton Upper Falls, Mass.	Boston
28.	United Equipment Corp.	Springfield, Mass	Boston
	ZONE 7		
29	Edward Ehrbar Inc.	Brooklyn 22, N Y.	Philadelphia
30	Henry Lohse Co, Inc.	Newark 5, N J.	Philadelphia
31	Service Supply Corp.	Philadelphia, Pa	Philadelphia
	ZONE 8		
32.	Hampton Roads Tractor & Eq. Co., Inc.	Norfolk, Va.	Richmond
33	Phillips Machinery & Tractor Co.	Baltimore, Md.	Baltimore
34	Phillips Machinery & Tractor Co.	Alexandria, Va.	Baltimore
35	Rush Equipment Co.	Charleston 22, W. Va.	Parkersburg
36	Rush Equipment Co.	Clarksburg, W. Va	Parkersburg
37.	Rush Equipment Co.	Richmond, Va	Richmond
38.	Rush Equipment Co, Inc.	Roanoke 7, Va.	Richmond
	ZONE 9		
39.	Industrial Equipment Co.	Sumter, S C.	Charlotte
40	North Carolina Equipment Co.	Raleigh, N. C.	Charlotte
41.	North Carolina Equipment Co.	Charlotte, N. C	Charlotte
	ZONE 10		
42.	Brandeis Machinery & Supply Co, Inc.	Louisville 8, Ky.	Louisville
43.	Brooks Equipment & Mfg. Co.	Knoxville 8, Tenn.	Nashville
44	Brooks Equipment & Mfg Co.	Chattanooga 8, Tenn.	Nashville
45	Industrial Tractor & Equipment Co	Nashville 3, Tenn	Nashville
46	Road Builders Equipment Co	Memphis 2, Tenn	Memphis
47	Rush Equipment Co, Inc.	Cincinnati 1, Ohio	Cincinnati
	ZONE 11		
48	Dunham-Pugh Co.	Baton Rouge 2, La.	New Orleans
49	Dunham-Pugh Co.	Monroe, La	New Orleans
50	Mississippi Road Supply Co	Jackson 112, Miss	New Orleans
51	Ray-Brooks Machinery Co	Montgomery 3, Ala.	Birmingham
52	Ray Brooks Machinery Co	Pensacola, Fla.	Birmingham
53	Tractor & Equipment Co	Birmingham 1, Ala	Birmingham
	ZONE 12		
54	Florida Georgia Tractor Co, Inc	Jacksonville 4, Fla	Jacksonville
55	Florida Georgia Tractor Co, Inc	Lakeland, Fla.	Jacksonville
56	Florida Georgia Tractor Co, Inc	Miami 14, Fla.	Jacksonville
57	Florida Georgia Tractor Co, Inc	Waycross, Ga	Jacksonville
58	Tri State Inc.	Atlanta, Ga.	Atlanta
59	Tri-State Tractor Co	Albany, Ga	Atlanta
60	Florida Georgia Tractor Co, Inc	Savannah, Ga	Jacksonville
	ZONES 13 & 14—(Not Established)		
	ZONE 15		
61	Empire Equipment Co	Sioux Falls, S D	Sioux Falls
62.	Empire Equipment Co	Rapid City S D.	Sioux Falls
63	Northwestern Equipment, Inc.	Wahpeton, N D	Fargo
64	Roxbolt Equipment Co.	Minneapolis 6, Minn.	Minneapolis
65	Roxbolt Equipment Co	Duluth, Minn	Minneapolis
	ZONE 16		
66	Herman M Brown Co	Des Moines, Ia.	Des Moines
67	Cornhusker Tractor & Equipment Co	North Platte, Neb.	Grand Island
68	Nebraska Tractor & Equipment Co.	Omaha 2, Neb.	Omaha
	ZONE 17		
69	The Sam H Denney Road Machinery Co.	Wichita 1, Kan.	Wichita
70	Mo-Ill Tractor & Equipment Co, Inc	St. Louis 7, Mo.	St Louis
71	Charles M Strong	Macon, Mo.	St Louis
72.	Noel V Wood, Inc.	Kansas City 6, Mo.	Kansas City
	ZONE 18		
73	Clarence L Boyd Co, Inc.	Tulsa, Okla	Tulsa
74	Clarence L. Boyd Co, Inc.	Guthrie, Okla	Tulsa
75.	Little Rock Road Machinery Co.	Little Rock, Ark.	Little Rock
	ZONE 19		
76.	Aldridge-Washmon Co of Harlingen	Harlingen, Tex	San Antonio
77	Browning-Ferris Machinery Co.	Dallas 1, Tex	Dallas
78	Browning-Ferris Machinery Co.	Houston 1, Tex.	Houston
79	Hardin & Coggins	El Paso, Tex	Sweetwater
80	Jess McNeel Machinery Co.	San Antonio, Tex.	San Antonio
81	Plains Machinery Co.	Plainview, Tex.	Amarillo
82	Plains Machinery Co.	Abilene, Tex	Sweetwater
	ZONE 20		
83	Glenn Carrington & Co.	Fairbanks, Alaska	Portland
84	Glenn Carrington & Co	Nome, Alaska	Portland
85	Hs Lane Equipment Co.	Great Falls, Mont.	Great Falls
86	Howard Cooper Corp	Portland 14, Ore.	Portland
87	Howard Cooper Corp	Eugene, Ore.	Portland
88	Howard-Cooper Corp	Seattle 4, Wash.	Portland
89	Industrial Equipment Co	Billings, Mont.	Billings
90	Industrial Equipment Co	Missoula, Mont.	Billings
91	Intermountain Equipment Co.	Spokane 5, Wash.	Spokane
	ZONE 21		
92	Clark County Wholesale Mer Co., Inc.	Las Vegas, Nev.	Salt Lake City
93	Hardin & Coggins	Albuquerque, N M	Denver
94	Intermountain Equipment Co.	Boise, Id	Salt Lake City
95	Intermountain Equipment Co.	Pocatello, Id	Salt Lake City
96.	The Lang Co	Salt Lake City, Utah	Salt Lake City
97	H W Moore Equipment Co	Denver 1, Colo.	Denver
98	Wilson Equipment & Supply Co	Cheyenne, Wyo	Cheyenne
99	Wilson Equipment & Supply Co	Casper, Wyo	Cheyenne
	ZONE 22		
100	J G Bastain	Redding, Cal	San Francisco
101	Braman Dickerson Co	Riverside, Cal	Los Angeles
102	Brown Truck & Equipment Co	Reno, Nev	San Francisco
103	Brown Tractor Co	Fresno, Cal	San Francisco
104	Brown Tractor Co	Madera, Cal	San Francisco
105	Brown Tractor Co	Reedley, Cal	San Francisco
106	John P Duncan	Yuma, Ariz	Los Angeles
107	Edgar Impl Store	El Centro, Cal	Los Angeles
108	M Elfstte & Co, Inc	Santa Ana, Cal	Los Angeles
109	M Elfstte & Co., Inc.	Anaheim, Cal.	Los Angeles
110	Exeter Mercantile Co.	Visalia, Cal	San Francisco
111	Exeter Mercantile Co	Exeter, Cal	San Francisco
112	Farmers Exchange	Alturas, Cal	San Francisco
113	Farmers Mercantile Co.	Salinas, Cal	San Francisco
114	Farmers Mercantile Co	Hollister, Cal	San Francisco
115	Farmers Mercantile Co.	King City, Cal	San Francisco
116.	Farmers Mercantile Co	Watsonville, Cal.	San Francisco
117	Flagstaff Implement Co	Flagstaff, Ariz.	Los Angeles
118	Gallagher Tractor & Impl Co.	Merced, Cal	San Francisco
119	Tony Gosselin	Eureka, Cal.	San Francisco
120	Hanson Equipment Co.	Santa Maria, Cal	Los Angeles
121	Kern County Equipment Co, Inc.	Bakersfield, Cal.	Los Angeles
122	Kern County Equipment Co, Inc.	Wasco, Cal	Los Angeles
123	The Lunes Co	Safford, Ariz.	Los Angeles
124	L. G Maulhardt Equipment Co.	Oxnard, Cal	Los Angeles
125.	F Ronstadt Hdwe Co.	Tucson, Ariz.	Los Angeles
126	Smith Booth Usher Co.	Los Angeles 54, Cal.	Los Angeles
127	Stanislaus Impl & Hdwe Co.	Modesto, Cal.	San Francisco
128	Southern Equipment & Supply Co.	San Diego, Cal	Los Angeles
129	The O S Stapley Co.	Phoenix, Ariz	Los Angeles
130	Stevenson Equipment Co.	Santa Rosa, Cal.	San Francisco
131.	A F Stubenberg	Honolulu, T H.	San Francisco
132.	Sutton-Morf Tractor Co.	Sacramento, Cal.	San Francisco
133	Thompson-Sage, Inc	Stockton, Cal.	San Francisco
134.	Thompson-Sage, Inc.	Lodi, Cal	San Francisco
135	Thompson-Sage, Inc	Tracy, Cal	San Francisco
136	Valley Equipment Co.	San Jose, Cal	San Francisco
137	Valley Equipment Co.	San Francisco, Cal	San Francisco
138	Northern Arizona Supply Co.	McNary, Ariz.	Los Angeles

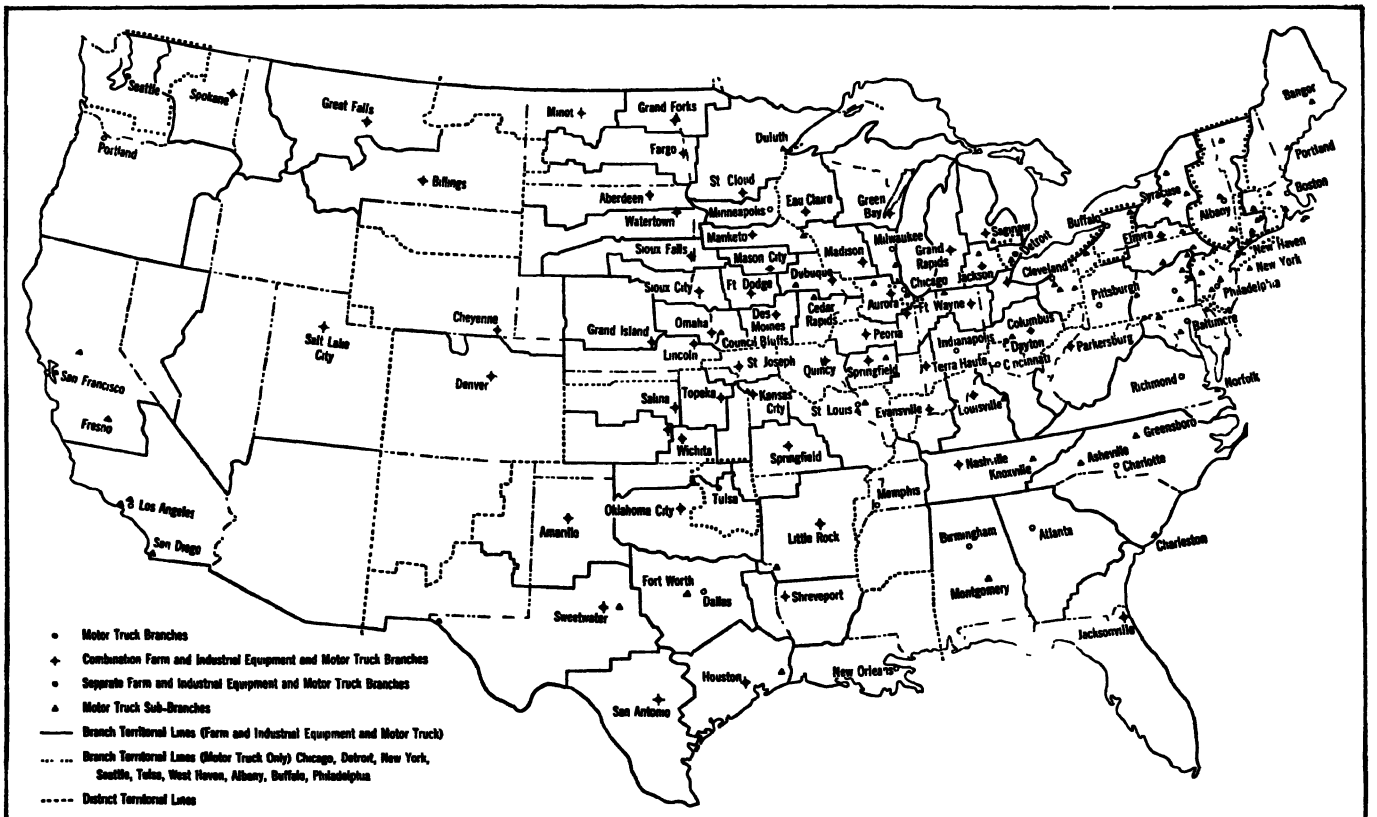
by the company directly to the Federal government, a fee for delivery services rendered was paid by the company to the distributor into whose territory the goods were shipped.

The output of the Farm Tractor, Farm Implement, Refrigeration, and Fiber and Twine Divisions was sold domestically by the General Line Sales Department. Selling was carried on almost entirely by dealers, of whom about 7,500 were under contract to the company. Dealers sold other products besides those of Harvester; for example, many general line dealers were also hardware or feed dealers, and might handle farm equipment products of other manufacturers. General line dealers were not granted exclusive territories, chiefly because of the difficulties of defining trade areas and drawing lines between nearby towns in rural districts. Also, territorial limitations were forbidden by law in some states. The company engaged in direct retail selling of general line products only in localities where, for some reason or another, it had not been able to obtain satisfactory dealer representation. Such selling was carried on by McCormick-Deering retail stores. All these stores were for sale whenever a satisfactory purchaser presented himself. In practice, there was constant turnover among the stores. For example, in 1939, the peak year in the decade, the company operated 121 McCormick-Deering stores. Since that time so many had been sold to independent dealers that by 1946 the company was operating only 11 stores.

Under the Vice President in charge of General Line Sales was a Manager—General Line Sales, an Auditor—Sales and Collection, and a Manager—Industrial Relations. The sales department was divided into operating and staff units, with six district managers each of whom supervised a number of branch managers depending upon the size of the district and the branch, dealer, and farm population within the district. District managers and branch managers were responsible for the marketing of Harvester products. Of the 78 Harvester branches, 46 were "combination" branches selling for both General Line and Motor Truck Divisions (Exhibit 3). The staff side of the general line sales department consisted of product specialists, the supervisor of service, and the supervisor of parts sales. In addition to a product specialist for general line sales, resident on the West Coast, there were product specialists for the following lines: corn machinery; dairy equipment, small engines, farm trucks; grass machinery; grain machinery and twine; plows and tillage machinery; refrigeration equipment; seeding machinery, potato machinery, beet harvesters; farm tractors. The product specialist for grain machinery and twine and the specialist for farm tractors each had an assistant, while plans were projected for assistants for some of the other lines as well.

The product specialists worked closely with district managers, assisting them in laying out a sales campaign as well as acting as "eyes and ears" of the general line sales department. They had a dotted line relationship with branch managers, whom they advised and counseled. This relationship served

Exhibit 3. INTERNATIONAL HARVESTER COMPANY. Branch Territorial Map



as a line of communication between customer reaction and thinking and the product specialist who was thus able to keep the General Line Sales Department appraised of what the customer needed and wanted. Product specialists also served on product committees, consisting of a representative of the divisional engineering group and the product specialist. Whenever necessary, the committee was augmented by representatives of the staff units under the supervision of the vice presidents of manufacturing and engineering. Product committees constantly reviewed each machine in the line and new machines proposed for a line. Differences of opinion on technique, design, manufacturing, and salability were composed to the satisfaction of engineering, manufacturing, and sales. The device of the product committee also helped ensure that all viewpoints would be considered and machines not placed in production which had no sales potential.

Since refrigeration equipment was substantially different from other products handled, six district representatives, each resident in a different sales district, reported to the refrigeration product specialist. While responsible to the product specialist, these men advised the branch manager on refrigeration problems in branch territories.

Also under the Manager and Assistant Manager of General Line Sales were a Supervisor of Service and a Supervisor of Part Sales. Although no servicemen were specially assigned to the various districts, men under the Supervisor of Service were directed from time to time to work with the servicemen in the branches. Except for the refrigeration servicemen, who were necessary because of the radical differences between refrigeration equipment and other kinds of machinery sold, servicemen did not specialize but were trained for all products.

Why does the International Harvester Company have different branch boundaries for various lines of products?

It is stated that general line distributors were not granted exclusive territories chiefly because of the difficulty of defining trade areas and drawing lines between nearby towns in rural districts. Explain and justify.

What special problems will be encountered in adding an organization for the sale of home refrigeration equipment?

To what extent can duplication be avoided in the International Harvester territorial setup?

50. HARD WEAR CORRUGATED SHIPPING CONTAINER CORPORATION. Planning for Sales Coverage by Salesmen

The Hard Wear Corrugated Shipping Container Corporation, with main offices in Chicago and plants in Chicago, Philadelphia, and Columbus, Ohio, designed and manufactured corrugated fibreboard containers, used to package everything from desk clocks and expensive glass to heavy office files and television-radio sets. The corporation had pioneered in many fields of pack-

aging and was one of the largest manufacturers of its kind in the United States. Its containers carried the nation's products to all corners of the world and were sold principally in the dense industrial markets east of the Mississippi River. The majority of the corporation's customers was included in the 39 industries which used 90% to 95% of all corrugated fibreboard shipping containers. Of the 39, 18 were classified as "food-clothing-and-shelter" industries.[1]

A sales organization of 45 men, each operating in an exclusive sales territory, sold the corporation's products to users. Three major sales operating divisions were maintained at the plants under the direct administration and control of the main offices at Chicago. Each salesman was responsible for the territory and reported to one or another of the five sales managers immediately accountable for his supervision. In turn, the five sales managers were directly responsible to the vice president and director of sales at Chicago.

At the beginning of 1951, the corporation's top management group began to study the probable effects of changing economic conditions. It appeared that one approach was through better routing and planning of the sales representatives who were responsible for the basic selling effort of the company in contact with buyers. In the spring, the corporation decided to call into this situation a consultant specializing in sales procedures. After several conferences, in part upon the basis of inquiry from other firms which had used Mr. Thorson's services,[2] he was assigned to work on the problem of

[1] The above mentioned 39 industries which used 90% to 95% of all corrugated shipping containers were:

Agricultural Implements and Tools
Automotive Industry
Aeronautical Industry
Armament, Ammunition, etc.
Beverages (all)
Tobacco and Tobacco Products
Building Materials and Hardware
Clothing (all kinds)
Boots and Shoes
Drugs and Pharmaceuticals
Cosmetics and Perfumes
Luggage and Leather Goods
Plastics (all)
Electrical Apparatus
Electrical Appliances
Confectionery (all)
Household Goods
Food and Food Products
Machinery, Tools, Parts, etc.
Paints and Varnishes
Chemicals (all)
Petroleum Products
Printing and Publishing
Paper and Paper Products
Retail, Jobbers, etc.
Rubber and Rubber Products
Soaps and Cleaners
Textiles, Yarns, etc.
Toys, Novelties, Sporting Goods
Bottles, Containers, Closures
Radio, Radar, TV
Office Equipment and Supplies
Vending and Coin Machines
Hospital and Institutional Supplies and Equipment
Dairy Products
Plumbing, Heating, Lighting Equipment
Shipping Supplies
Advertising and Displays
Records and Record Players

[2] Mr. James Alfred Thorson, Cleveland, Ohio.

etting up the salesforce so that it might accomplish the corporation's aim of ttaining low cost distribution, together with maximum possible sales volume nd profits from the most desirable customers during the expected rapidly hanging economic conditions.

As Mr. Thorson began work on the installation of the special system in he Hard Wear Corrugated Shipping Container Corporation, he recognized hat it presented two major problems, namely: (a) the developing of a sales-orce formula for operating sales management; and (b) the application of he formula to the working details of daily sales operations. Extracts from his eport to Hard Wear's top management and notes from the instructions on he application of the revised operating procedures follow.

1. THE SALESFORCE "FORMULA"

Operating management of salesforce procedures can be based effectively on a formula. In fact, in order to make such procedures most effective, they must be based on a formula. Such a formula must be applicable to the solution of all operating sales management of salesforce problems.

Administrative (or staff) sales management is not involved in this problem and is not considered. The problem that is being considered is the effective operating sales management (or, line management) of salesforce. The problem is to cause the line sales organization to execute the administrative sales management's plans, programs, policies, and instructions effectively.

Too frequently administrative sales management is sanguine about the effectiveness with which its operating plans and instructions are being executed. Too frequently the techniques of execution, particularly out in the sales fields, have been imperfect improvisations which could not possibly do more than partially meet only special and temporary sets of circumstances. Traditionally, the result has been that these temporary conditions would disappear, the imperfect improvisations would be replaced with others equally imperfect, but the general accumulation of improvised techniques would remain in force. Subsequent similar techniques would then be piled higher and higher and the entire set of haphazard procedures thus arrived at would differ with each change in line and/or administrative top management. These methods are less effective and more costly than a flexible salesforce formula which can be permanently applied to help solve progressively every problem of operating sales management of salesforce. This coordination of sales-operating procedures formula is such a flexible salesforce formula.

The common denominator in this formula is incorporated in four basic factors (called people, places, time, and travel), which are common to the operating requirements of all salesforces. For instance, all salesforces deal with active-and-prospective customers (people) who may be either concentrated in compact areas or widely scattered in spread-out geographic locations (places) and should be brought to the attention of the operating salesforce for attention or action at certain determinable intervals (time) and who need to be approached personally on occasion by salesmen of the operating salesforce (travel). Thus we have a "valid formula" for the coordination of sales-operating procedures.

The job to be done here is to apply this formula to the operating sales management of the corporation's salesforce and accomplish at least three sales objectives in the corporation's interests. Proper application of the valid formula in detail to the operating sales management, and the sales-operations of the salesforce of the Hard Wear Container Corporation accomplish those three objectives: (a) puts the salesmen in position to work consistently on good prospective business; (b) puts Hard Wear corporation in permanent position to make sales management adjustments readily and accurately to meet changing conditions; and (c) puts Hard Wear in sound position to make desired operating adjustments on the basis of thorough sales operating knowledge.

The major objective is to help effectively all the salesmen: (a) make better use of their sales time with less effort on their part; (b) cover all sales requirements of their respective territories more effectively and probably with less travel; (c) improve and increase range of their selective selling ability for securing maximum sales-volumes at low cost-of-sales; and (d) study intelligently and effectively every prospective-and-active customer's business and corrugated shipping container needs more closely.

II. APPLYING THE OPERATING SALES MANAGEMENT OF SALESFORCE TO THE HARD WEAR CONTAINER CORPORATION NEEDS

The basic factors of the common denominator in this formula are handled in the sequence in which they were stated earlier: people, places, time, travel. Logically, this places the four factors in their correct order of importance in the sales-operating job. Each factor is handled completely by itself without relation to the other except that, after it has been handled completely, the first factor (people) then merges automatically into its proper position with the second factor (places). Then when the second factor has been completely handled, the now properly melded first and second factors merge automatically into their proper positions with the third factor. This process continues progressively until all four basic factors, and the numerous subfactors pertinent to the corporation's sales-operating job, have been formed into an effective application of the valid formula.

Handling the first basic factor (people), involves assembling with each individual salesman the business-vital-statistics covering all active-and-prospective customers who are to be considered at this time in the corporation's sales-operations. A specially designed master card form is used for this purpose.[3] The master card asks all the pertinent questions before necessary data essential for carrying on successful sales-operations are at hand.

While specific detailed questions are always and necessarily fitted into the designing of the master cards according to the requirements of the business and industry involved, the master cards ask such basic questions as: (1) What is the correct style-name of the customer; (2) where are they and what is their exact address; (3) what industry are they in and what is a briefly detailed description

[3] The "master card" form used for the Hard Wear Container Corporation is attached to this case. Exhibits 1 and 2 show specimens of the front and reverse sides, respectively, of the specially designed master card forms which were used in setting up this application of the coordination of sales-operating procedures.

Exhibit 1. Hard Wear Corrugated Shipping Container Corporation

CUSTOMER'S: NAME:

ST.ADDRESS:

CH.CONTACT:

CITY AcNo

STATE TeNo

COUNTY SpNo

PHONE

CRDT RTG

YRLY USAGE-SQ.FT:

YRLY USAGE-LBS:

YRLY USAGE- $

TIME RATING: W-X-Y-3-3-4-5-==

CLASSIFICATION of CUSTOMER	
*	SCC Active Customer
*.	SCC Inactive Customer
*/	SCC Former Customer
/	SCC Prospective Customer

TYPE of CUSTOMER'S BUSINESS	
MfCv	Manufacturer-Civilian
MfDf	Manufacturer-Defense
Govt	Gov't Dept/Agency (all)
PrCn	Prime Contractor
SeCn	Secondary Contractor
Jobb	Jobber
ShPl	Sheet Plants

CUST'S INDUSTRY CLASSIFICATION	
Agri	Agricultural Implts/Eqt
Auto	Automotive Industry
Aero	Aeronautical Industry
Arma	Armament,Ammu.& Sm.Arms
Bevg	Beverages (all kinds)
Toba	Tobacco & Tob. Products

(cont'd) CUST'S IND. CLASSIF.	
Bldg	Bldg.M'fg.Eqm. & Hrdwre
Clth	Clothing (all kinds)
BtSh	Boots & Shoes
DrPh	Drugs & Pharmaceutic'ls
CoPr	Cosmetics & Perfumes
ElAp	Electrical Apparatus
ElAl	Electrical Appliances
Conf	Confectionery (all)
HwGd	Household Goods
FdFP	Food & Food Products
MTPA	Mchy.Tools, Parts & Acces.
PaVa	Paints & Varnishes
Chem	Chemicals (all kinds)
PePr	Petroleum Products
PrPu	Printing & Publishing
PdPP	Paper & Paper Products
Mtch	Matches
RtMO	Retail.Jobbrs & Ml.Ordr.
RbRP	Rubber & Rubber Products
SoCl	Soaps & Cleaners
Txtl	Textiles,Yarns,Blkts.
TNSG	Toys,Nov'lts,& Spts.Gds.

(cont'd) CUST'S IND. CLASSIF.	
BCCC	Bot'le,Cans,Cntnrs.Clsr.
RRTV	Radio, Radar, & TV
OE&S	Office Equipment & Supp.
VdCm	Vending & Coin Machines
Hosp	Hospitals & Inst. S&E
DaPr	Dairy Products
PhLE	Plbg.Htg.& Lghtg. Eq'pt.
ShSu	Shipping Supplies
Advt	Advertising & Displays
RdRp	Records & Record Players

TYPES	PRODUCTS CUST. USES
SiWa	Single Wall
DbWa	Double Wall
ColR	Color Corrugated
ChBd	Chip Board

Exhibit 2. Hard Wear Corrugated Shipping Container Corporation

DETAILED DEFINITION of THIS CUSTOMER'S BUSINESS:-

CHIEF COMPETITION:-

NAMES of OTHER CONTACT PERSONNEL:-

SPECIAL NOTATIONS RE THIS CUSTOMER:-

of their business; (4) how much do they use of what we can supply; (5) from whom do they buy it if not from us; (6) where is their market; (7) what is the correct name of the buyer and his title; (8) how much are they worth financially; (9) what are their payment habits; (10) how is their credit; (11) what is their telephone number; etc.

The original set of master cards must come from the home office. They bear as much of the pertinent sales-operating data as the home office records and files disclose. Every possible source is explored for active-and-prospective customers with whom the corporation has done any semblance of business and then master cards are filled out. They are segregated by sales territories and arranged alphabetically by names of the active-and-prospective customers.

The master cards are then taken up with each territory salesman personally and carefully submitted to him for his study in order to secure his appraisal of and best judgment for handling each active-and-prospective customer who is to be currently included in the salesman's sales-operating job. The salesman separates the master cards into two general groups: (a) customers he wishes to retain in his sales-operation, and (b) those he wishes to discard either permanently or temporarily. The salesman may then add master cards for customers he wants to include in his sales-operations and who were not included in the original set from the home office. When he has culled the master cards so that he is retaining only those customers in whom he is interested, the salesman makes a careful examination of each active-and-prospective customer.

In completing his study and examination of each master card, and after review of the customer involved, the final detail in connection with handling this first basic factor of the coordinated sales-operating procedures (people) is the salesman's application of a time rating, or time-evaluation, to each active-and-prospective customer. This he does by applying a time-rating code symbol. Thus he has determined how often he wants each active-and-prospective customer automatically henceforth to come to his attention for (a) personal call; (b) phone call; (c) letter; (d) other action; (e) or inaction, solely according to the judgment of the salesman when the time-rating comes to his attention. Regularly accepted normal calendar periods form the basis for the simple time-rating codes, which are divided into two main divisions: weeks and months. The last four letters of the alphabet designate weeks, and numerals indicate how many months.

W—once each week	2—every two months
X—each two weeks	3—every three months
Y—each three weeks	4—every four months
Z—each four weeks	6—twice each year

—indicates no time-rating applied at this time.

The second basic factor (places) involves (1) a rearranging of the master cards from their original arrangement by customers to an alphabetical arrangement by cities, towns, etc.; and (2) a thorough geographical research with the salesman to coordinate effectively territory coverage with minimum travel-mileage. Frequently the salesman is so thoroughly familiar with his territory that he does not need a map. In such instances the geographical research is

executed by the salesman arranging the master cards in the geographical order which will coordinate his territory coverage most efficiently. Ultimately, the salesman's geographical research is transcribed to a proper sales-territory map in order to make the places factor of this coordinated sales-operating procedures method completely referable.

When the salesman wishes, a sales-territory map is used at this juncture. On an up-to-date map which is a convenient size, the salesman personally draws distinct pencil lines to designate the boundaries of his territory. Each town which is to be included in the salesman's territory coverage coordination is also stamped on the map. It is interesting to note that in all probability there are a great many more towns on the map that are not included in current sales-operations than are, despite the fact that the salesman voluntarily has planned giving coordinated attention to ten times as many customers as have been sold previously.

The map is now divided into sales-operating areas, each of which should include as many of the dotted towns as are naturally associated with one another geographically according to the salesman's reasoning and judgment. These sales-operating area boundaries are drawn in with heavy pencil lines similar to those drawn for designating the outline boundaries of the territory. These sales-operating areas can be any size or shape; there can be any number of areas in one territory; there can be any number of towns in one area, or any number of areas in one town; there can be any number of active-and-prospective customers in an area. It is not important for management to be concerned about possible sales-operating discrepancies or inconsistencies in any of these things at this time. The important thing now is to arrange this portion of the coordinated sales-operating procedures job according to the ideas, reasoning, and judgment of the salesman so that he feels that it will operate most smoothly and effectively for him.

The foundation for handling the fourth basic factor, travel, is established at this point by the salesman personally. He examines each area and names the dotted towns in each one in the sequence in which he would pass through them if he were making a single continuous trip in the shortest and most compact route. As the salesman names the towns, they are written down in a corresponding travel-wise list, one for each area. This establishes a sound foundation for future routing throughout the territory. Obviously the salesman will never make one single continuous trip which will pass through all the towns in any one area. However he does cover all towns in all areas at different times according to the time-rating groups arranged in coordinating the basic factor of time. The executing of the imaginary single continuous trip through each area has permanently established the most effective handling of all possible combinations of future travel in that territory.

The final detail is to rearrange the master cards from their present "town-wise" arrangement to the "travel-wise" arrangement which has now been established by the salesman. When there is only one master card for a town, that card simultaneously represents the customer as well as the travel-wise position of the town. Where towns are represented by more than one master card, the cards are arranged travel-wise within each town. When assembled, they are banded

together in packs, one for each area and properly labelled. They are now arranged in the manner in which they will be used as the master-copy for compiling the salesman's coordinated sales-operating procedures manual.

The third basic factor is handled last. It involves primarily the compiling of the coverage schedule, arranged for a calendar year. It is the actual instrument for motivating the coordinated sales operations in the territory according to the plans of the salesman himself. A sample of the schedule form is shown in Exhibit 3 and has been partially filled in from an actual coverage schedule. Exhibit 4 is a specimen of the weekly refresher form which also has been partially filled in. It is evident that this form might be called a streamlined version of the old-fashioned weekly route sheet, the major difference being that, while the latter traditionally was dreamed up from hunches, wishes, and out-of-the-blue, the weekly refresher is a program which has provided for year-in and year-out attention to every active-and-prospective customer in the territory on the basis of his sales value and importance to the company

The scheduling job itself is approached through the area packs of master cards. Let us assume that the salesman divided his territory into five areas. These master cards now contain all his available business vital statistics and other pertinent sales-operating data, including time-ratings. The salesman designates the master cards in #1, #2, #3, #4, and #5 order, from the most to the least important. A sales-operating inventory is now made, area by area, counting the time-rating groups in context with the towns and accounts to be covered. Next, a calendar-year coordinated sales-operating schedule-chart is made from the inventory with the cooperation of the salesman. These become the engineering drawings of the salesman's coordinated schedule shown in Exhibit 3.

The coverage schedule is the most important single device in this procedure. It actually is the organized and coordinated instrument of operating sales management for putting all the salesman's decisions and plans into action. The coordinated coverage schedule coordinates the valid formula's four basic factors: people, places, time, and travel. The coverage schedule is compiled by transcribing onto it the calculated data from the schedule-inventory and the schedule chart, week by week for the entire calendar year, and area by area for the salesman's entire territory. The completed coverage schedule discloses several very important sales-operating facts. First, the schedule with its complementing weekly refreshers comprises the only place the salesman needs to look to find out exactly what *he* planned to do for any given day, week, month, or any other given calendar period of the year, and it now has been set up and handed to the salesman in completed form readily referable for the whole year's sales-operations, strictly according to the salesman's own dictation, in the only possible way that can insure consistent attention to every factor of the entire sales-operating job in the territory. Further, when one assignment is up for coverage in the territory, it is the only one which the salesman needs to consider; all other sales coverage assignments will automatically come to the salesman's attention at their proper times in accordance with time-rating evaluations.

Careful examination will disclose that mechanically the coverage schedule

Exhibit 3. Hard Wear Corrugated Shipping Container Corporation

COORDINATED SALES-OPERATING PROCEDURES SCHEDULE FOR 1952.

SALES TERRITORY NO. C-13 SALESMAN: Herb Spohr

WK OF MONDAY	TIME-RATING GROUPS IN SCHEDULE	TERR. AREA NO.	DESCRIPTION OF AREA AND TRAVEL	NO OF CUST'S SCHEDULED	NO. OF DAYS SCHEDULED
4/21	X-	#1	Chicago, Loop	2	
	X-Z-	#2	Chicago, Central East	9	
	X-	#6	Chicago, Central Southeast	3	3/4
4/28	X-Z-	#5	Chicago, Central West	15	
	X-	#4	Chicago, Northwest	3	
	X-Z-	#6	Chicago, Central Northeast	8	
	X-	#7	Chicago, Southeast	1	5

Exhibit 4. Hard Wear Corrugated Shipping Container Corporation

SALESMAN'S WEEKLY SALES OPERATIONS REFRESHER .

Salesman's Name Herb Spohr Territory No. C-13 Week of: 4/21/52

Account Identity	CUSTOMER'S NAMES and BUYER'S NAMES	TOWNS and STREET ADDRESS	MEMORANDA
	X- Area #1 -- Chicago, Loop		
103AX	S Dresmer & Sons Sherwin	512 Peoria St	Lugg.
112AX	Bradley Mfg Company Lvy Gershon	412 Orleans St Da 7-4665	WhGd
	X-X- Area #2 -- Chicago, Central East		
201AX			
205AX			
206AX			
207PX			
208AX			
210AX			
211AX			
	X- Area #6 -- Chicago, Central Southeast		
602AX			
605AX			
610AX			
EMERGENCIES and SPECIAL ASSIGNMENTS			

has been arranged as flexibly as possible to allow and compensate for interferences. Experience has shown that most sales operation of the coverage schedules over a period of years when sales-operations are carefully planned, coordinated, and scheduled, are executed as planned and few emergencies occur to interfere with regularity and schedule.

The Coordinated Sales-Operating Procedures Manual for the salesman is now compiled, typed, assembled, and returned in completed form to the salesman for his use. The sales-operating data are now formed into a flexible sales-operating manual. It is for the use of the salesforce directly and also for the use of the operating sales management of salesforce. A tremendous amount of sales-operating experience, knowledge, and material has been assembled into referable and usable sales-operating shape through the valid formula handling of the four basic factors.

The completed sales-operating manual is a compact, flat, convenient instrument with a finished binding size for 8½" by 11" and about 1" thick. It is constructed in two major divisions, one containing the reference data and the other the detailed sales-operating data pertaining to the specific job. The latter is built principally around the major sales-operating form and necessarily is specially designed and tailor-made for the requirements of each specific business or industry. A sample of an actual major sales-operating form is shown in Exhibit 5.

The completely functioning coordinated sales-operating procedures manual can implement the complete handling of all sales-operating requirements of a territory, or of an entire national market, with 90% less maintenance paperwork than would otherwise be necessary. Also, the completely functioning manual is adaptable to constant changes, corrections, and revisions as required for progress. When properly constructed and motivated, the manual produces the correct answers to the basic questions of sales operations. These correct answers are necessary wherever the expectations are to insure and secure maximum possible sales-volumes, with high profits, at low end-cost-of-sales.

CASES IN BRIEF

1. The Linfield Company with sales offices located in Pittsburgh was a large manufacturer of construction materials including composition shingles and insulating board, although the company also manufactured a number of allied lines. A salesforce of 750 men operated from 20 district offices throughout the United States and sold Linfield products to retail lumber yards, hardware dealers, building supply dealers, roofing contractors, railroads, and government purchasers. The sales organization of the company was departmentalized both by type of products sold, of which the building materials division was the most important, and by classes of outlets as exemplified in the railroad and government departments.

Sales executives were faced with the problem of dividing the company territory in such a way as to get satisfactory coverage. This problem was encountered during the course of a country-wide undertaking in order to determine logical jobbing areas for building materials. Executives believed that the use of such areas as the bases for sales districting would provide a more efficient and economical distribution system. In starting this study, head office representatives con-

Exhibit 5. Hard Wear Corrugated Shipping Container Corporation

T. R.

| CUSTOMER DATA | | |

ferred with district managers and building material salesmen in order to decide upon the type of data necessary. Among the important factors considered in delimiting an efficient jobbing area was the condition and number of highway arteries. Since building materials were both heavy and bulky, and since keen competition among manufacturers made quick delivery essential to stability of sales, the use of motor trucks for distances in excess of 30 miles was believed inadvisable. For greater distances not only did the operating costs of the truck absorb the major portion of the dealers' profit margin, but the slower and somewhat more uncertain delivery enabled more strategically located dealers handling competitive lines to secure such business.

It was suggested that, in order to redistrict the territories, lists of dealers with an estimate of their annual sales be compiled, securing information from present salesmen and district managers. It was also suggested that district representatives of the Linfield Company together with the market analyst prepare brief descriptions of the industrial and agricultural characteristics of each section with lists of important towns in each county and their populations. From company records, actual sales performance in the various areas was to be made available. On the basis of these data, executives had to determine the logical jobbing areas and the assignment of salesmen and their headquarters in the state of Ohio.

2. A medium-sized manufacturer, through his market development department, was endeavoring after World War II to secure a more logical basis for defining the size and extent of distributors' territories. The department proposed that questionnaires be sent to a variety of persons and organizations, including professors of marketing, wholesalers themselves, and men in other wholesaling lines. It was proposed that questions be asked concerning the factors which influence the size and extent of wholesale distributing territories for major electric appliances and their average weight in making decisions as to the boundaries of distributors' territories. The factors included in the questionnaire were: (1) concentration and disbursing of population, geographical boundaries; (2) warehousing facilities; (3) service facilities; (4) newspaper and radio coverage; (5) number and variety of products sold by wholesaler; (6) varying patterns of demand in area for major appliances; (7) dealer buying habits; (8) intensity of competition among rival stores; (9) size and extent of competing territories. These were tabulated and space allowed to indicate a percentage weight which should be allotted to each.

Was this approach likely to develop a dependable basis for decision on distributors' territories?

What other factors should have been considered in addition to those mentioned?

3. The Starr Drug Company of Columbus, Ohio, prepared and sold a line of drug sundries to practically all drug wholesalers in the United States and to 20,000 retail drug stores. Because of extensive advertising and the resultant consumer acceptance, such a demand existed for the company's product that well over 50% of the orders was received by mail without any direct solicitation on the part of the company's 18 salesmen. The company offered the same prices and selling terms to all customers who would purchase at least a $50 order at list prices. As a result of this offer, approximately 60% of its sales volume went direct to the 20,000 retail outlets; the remaining 40% was purchased through wholesalers by retail outlets which were not large enough to purchase the minimum $50 order. The expenditure for advertising was by far the most important part of the selling expense. In order to study the effectiveness of its advertising and of its salesforce and to watch the trend of sales, the company compiled daily records of sales of nine types of outlets by states. Recently, the executives decided to add to this study another record of daily sales to retail outlets and to wholesale outlets by cities. The

executives were not satisfied, however, with the accuracy and the completeness or significance of the information obtained, and it was argued that these figures did not reflect the true distribution of retail consumption and therefore did not reflect facts of purchase and sale which would enable the company to determine the effectiveness of advertising and other selling effort. Sales to wholesalers might or might not be made in the areas confined by state or city boundaries. Therefore, it was proposed that, in future planning and in the collection of data relating to potentials and for the compilation of control information, sales and market facts be gathered on the basis of trading areas rather than on a city or state basis.

Is this plan practicable? What advantages might be expected? What difficulties would be encountered? If decided upon, how should the market research department go about setting up trading areas for use of this company?

4. During the early growth of its business, the Meeker Dry Goods Company of St. Louis permitted its salesmen to retain, as their own accounts, retailers whom they had served when these retailers first visited the home office. This practice was discontinued because the salesmen, finding it profitable, tended to remain at headquarters rather than out in their territories. It also resulted in an overlapping and intermingling of sales territories, which was permitted to continue until the question of redistricting territories came up for decision.

Sixty salesmen were employed to visit retailers in the towns with a population over 200 in 16 neighboring states. Their calls varied in frequency from once a week in St. Louis to once a season in territories as far distant as Colorado or Dakota. The bulk of the sales was in towns with less than 20,000 population in the immediate vicinity of St. Louis. A general line of merchandise was carried, consisting of piece goods, cotton, wool, and silk dress goods, gloves, underwear, laces and embroideries, knit goods, novelties, notions, and accessories.

The reorganization of territories not only would reduce travel expenses but would make possible a decrease in the number of salesmen required to cover the territory. On the other hand, if a change were made, customers as well as good salesmen might be lost because of the desire to continue the established friendly relations between customer and salesman. If no salesman could sell all the accounts in a territory, the overlapping might be necessary for intensive selling.

Should the Meeker Dry Goods Company have redistricted its territories to eliminate overlapping?

5. How many calls per day should a salesman make?

6. Lang and Thompson Company, of Worcester, Massachusetts, was one of the oldest and largest manufacturers of small tools and cutters in the United States. Distribution was through hardware dealers and mill-supply houses and direct to certain large users. Tools and cutters were first sold by the same salesmen, but the expansion in the sale of cutters until the line included 35 styles and 2,000 sizes of milling cutters, gear cutters, and hobs necessitated the organization of separate salesforces. Although the major market was in the East, distributors and metal-working plants in all parts of the country were customers. Separation of the salesforce had made a change in salesmen's territories advisable, and the sales manager wished to divide the country into territories of approximately equal value and to set up sales quotas for each salesman. Inasmuch as the cutter line was the more important of the two, work was to be begun on cutters, and the sales territories for the salesmen of small tools were not to be studied until the territories for the cutter line had been reconstructed.

How could Lang and Thompson Company have accomplished these objectives? What problems were involved? What sources of information should have been used?

7. How does the development of airplane transport affect a high-salaried specialty salesman calling upon depart-

ment stores in cities of over 200,000?

8. What is meant by "trading area"? List in order of importance the factors which determine such areas with reference, if possible, to studies of such areas.

Discuss the following: "The recent studies of trading areas are another step in the application of scientific methods to the problems of marketing. But such studies have definite limitations and the individual manufacturer cannot expect to pick up a ready-made set of areas."

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6. *Sales Programs and Sales Promotion*

The central problem of sales and marketing management is that of bringing about buying action. Selling must be successfully performed if manufacturers, wholesalers, or other middlemen are to persist and grow.

When the sales proposition has been determined and the task of the sales organization has been decided, the next problem is to formulate plans for accomplishing the task. How is the task of selling a million units of a particular commodity at certain prices to be accomplished? Available to executives and to sales managers is a variety of tools with which to make sales, some of which may be effective under particular conditions, many of which will not be effective under other circumstances; the choice of methods for a plan even for smaller enterprises is a difficult one.

Broadly, the most important problem of the sales department is to choose proper methods and to combine them in the proper way. The difficulty of solution is enhanced by the fact that there is no great amount of data with which to determine proper proportions. Every sales manager is working toward an ideal proportion of personal salesmanship, advertising, and minor means of selling, so that he can effect distribution at minimum cost and maximum profit, in the long run, for the seller. That such an ideal proportion exists is only conjectural, but a study of the experience of many companies seems to show that it is possible to have too much personal salesmanship and too little advertising; or that it is possible to have too little personal salesmanship and proportionally too much advertising. There are many instances of accomplishment of increased effectiveness in selling brought about by some variation in the application of the chief selling methods or by some application of one or more of the minor means. A tendency analogous to the law of diminishing returns seems to be operative. With a given amount of advertising, for example, the returns may come in increasing measure if the amount of personal salesmanship is increased; but beyond a certain point, which it is difficult to determine, additional personal salesmanship may be increased to such an extent as to yield less than proportionate returns for additional expenditures.

The important methods of effecting sales may be classified briefly as follows:

1. Personal solicitation, personal salesmanship, or personal selling.
2. Advertising in its various forms.
3. Correspondence, which at times approaches direct-mail advertising.
4. Samples, frequently used in combination with personal solicitation or with advertising or correspondence.
5. Fairs and exhibitions.
6. Auctions, a method of selling used not only in emergencies but as a regular device for selling both raw materials and finished products in limited lines.
7. Competitive bids.
8. Reciprocity.

These methods may be classified also on the basis of the method of application. Wherever distribution is carried on through middlemen, advertising, personal selling, and other methods may be used either to sell to particular buyers or to sell to those who buy from these buyers. Selling may be regarded as a "pushing" process when sales effort is devoted directly to those to whom the transfer of the goods is to be made and as a "pulling" process when the endeavor is made to help sell for, or to reduce the difficulty of selling for, those who resell. All selling efforts directed at consumers who buy the goods from retailers are "pull" or indirect methods. All selling efforts directed at retailers by a company which sells its products to wholesalers may likewise be called pull methods. All efforts directed toward wholesalers in such cases are "push" or direct methods. In brief, successful application of pull methods results in selling for a distributor, therefore ultimately in selling to a given buyer. Push methods aim at selling to the buyer.

It will be noticed that no mention has been made of the methods of allotment and the problems of the abnormal sellers' markets of the war period and immediately thereafter. Difficult and perplexing problems of maintaining good will while making inadequate deliveries, of the continuing struggle to maintain trade position while unable to furnish fully satisfactory products, occupied the attention of some sales managers. In other firms, the abnormal willingness of buyers to take the initiative, or the full operation of plants on government orders coupled with government unwillingness to pay expenses of maintaining selling operations to civilian markets, led to decisions which practically amounted to discontinuance of any selling effort and even to disbanding sales organizations. The coming of buyers' markets has changed this. Selling programs of the same general types, including all the prewar elements, as well as newer developments such as television, have had to be designed, tested, and executed, with the same care and with the same general objectives as in the prewar period. To those whose experience had been confined solely to sellers' markets, the advent of buyers' markets and the necessity of aggressive and intelligent selling have presented psychological hurdles. Selling organizations and selling programs had become "soft." However,

gradually the sales executives and sales staffs were becoming adjusted to the more normal conditions and returning to those attitudes and to that willingness to sell intelligently which can claim much credit for the high standard of living which we enjoy.

The sudden increase of defense demand and threat of shortages after June, 1950, interrupted the adjustments to buyers' markets and high demand in some fields has persisted. There is evidence that further adaptation to existing demand has taken the form of increasing advertising's share of the sales program.

A. DETERMINING THE SELLING PROGRAM

It is the task of the sales manager to choose those selling methods which from a long-run viewpoint will effect the distribution of his product with the smallest expenditure of time and money. That point of view may compel a higher cost of distribution at the outset as a means of developing a foundation of good will for lower costs in the future. It is evident, without going into detail, that the manufacturer or wholesaler of finished products customarily uses several types of selling methods. There are many variations of the personal selling method; there are many forms of advertising; there are differences in the use of samples, resulting in the existing wide differences in practice. The problems of the sales manager are so complex that in the great majority of selling departments the choice of selling methods has had to be made on the basis of trial and error, tempered by experience.

In arriving at any choice of methods to be used in order to sell a product, several different sources may be utilized. The sales manager may base his decisions upon his own experience or that of the business or upon the experience of other executives personally engaged in selling goods. Firms which have been in business for any length of time have built up certain funds of experience, possibly traditional methods, and, though these may not be the most profitable methods, the least profitable are likely to have been discarded on the basis of experience. Among wholesale and manufacturing firms, personal salesmanship has commonly been used since the Civil War as the chief method of effecting sales; as a consequence, any consideration of change of distribution method has frequently taken the form of considering the use of other methods, often the addition of one or more forms of advertising.

The second basis for choice of selling methods is the practice of the trade or the customary practice of individual competitors. The majority of firms in a particular field of business usually employ the same general combination of selling means. It is easy for the sales manager to assume that, because competitors use a particular combination of means, the evidence is in favor of that method. Though in many lines of trade there are distinct departures from generally accepted methods, the average manager looks upon any such

deviation with suspicion. If some of these departures are unusually successful, they are imitated, sometimes wisely, often unwisely.

Experimentation, research, and analysis constitute the most modern means for securing facts and reducing the risk in making changes in selling methods. Preliminary tests as to particular combinations or applications of selling methods may be made in small selected territories. The company may experiment in the use of newspaper advertising or in the use of a particular type of salesman in a restricted area, so that the unsuccessful outcome of such an experiment will not be disastrous to it, while success will give a greater assurance and point out methods of improvement in the adaptation of the new plans to the entire market area. For instance, a sales manager or salesman may have the idea that more sales could be made provided better dealer service were given in the way of furnishing and installing window displays. It may frequently not be profitable to take the salesmen's time for such service; consequently, the plan of using two or three men to go from town to town to set up those window displays may be tried out in a small territory considered representative. If successful, the plan may be used in the entire United States, or perhaps only in the more congested areas. Or again in the introduction of a new product in one territory at a time by a company having national distribution, the sales manager faces the question of using regular salesmen or special salesmen during the period of introduction. There may be much greater economy in the use of the regular salesmen, provided the regular salesmen can introduce the product effectively. On the other hand, it has been the experience of many companies that the introduction of a new product or the development of new customs is a type of work which cannot be done so effectively by salesmen who solicit the regular trade as by special salesmen.

For advertising, certain tests have been developed to determine relative effectiveness of particular pieces of copy. The effectiveness of headlines, type faces, and color has been subjected to scientific study by psychologists. The results obtained point toward definite accomplishment in the application of scientific study to advertising copy. So far, however, little has been accomplished in scientifically determining what combination of selling methods will give the maximum results at the lowest cost of distribution, and yet that is a question which should be decided before scientific methods can be applied to the selection or supervision of a sales program. Really valuable experiments are also those in which a company tries out, in certain experimental territories, combinations of selling methods to determine those which are most effective.

Sales Campaigns and Sales Programs. Sales campaigns should be distinguished from sales programs both on the basis of the length of time for which they are ordinarily effective and on the basis of the inclusiveness of sales methods. The general-purpose plan, one which ordinarily includes all the

methods for effecting the work of the sales department for the period of a year, may be termed the sales program. The limited-purpose plan, used perhaps to introduce a new product, to carry on intensive selling work in order to increase sales at some predetermined rate, or to increase sales of a single product or line which may have been falling behind, may be accorded the term "sales campaign." There is a distinct advantage in a careful definition of the purpose of a campaign at the outset, because only by such definition can a proper correlation of the various means of selling be brought about.

The choice of methods to be combined in the selling campaign will, of course, be dependent upon the purpose. A general plan for increasing sales throughout the year may include all of the types of advertising, all of the forms of personal selling, and other means which may be considered effective by the particular sales department. In more detail, the program requires decision as to the number of men to be used in the campaign, the work which each man or each class of men is to do, the types of advertising methods, and, possibly, display of the product at fairs or exhibitions, the utilization of window displays, resale equipment, and the like. In settling the question as to when the various means are to be used, sales managers frequently resort to a layout of the campaign in which its various elements are analyzed and definite dates fixed for such work. The time elements involved in a program or campaign are often overlooked by the inexperienced or careless. Seasoned experience has in the past been needed to recognize the careful planning necessary to get the maximum result from any combination of selling methods.

Creative, organizing, and executive abilities of the highest order are required to develop, plan, and execute the large-scale programs of American enterprise. It is upon the success of sound sales programs that American industry must depend to furnish the basis for social security and progress.

51. CONGOLEUM-NAIRN, INC. Introduction of Vinyl Floor Coverings

In May, 1953, Congoleum-Nairn, Inc., manufacturers of smooth surface flooring products, acquired the assets of the Sloane-Blabon division of the Alexander Smith Company. Sloane-Blabon also manufactured smooth surface flooring. This was the second of two acquisitions that Congoleum-Nairn had completed in two years: In June, 1951, Congoleum-Nairn had purchased the Delaware Floor Products Company. The two mergers added to Congoleum-Nairn's original product lines a complete line of vinyl plastic flooring, a type of flooring which had become an important factor in the market only since about 1947 and which was taking an increasing share of the flooring market. Appendix A describes the various vinyl flooring materials and the established products against which they competed.

Following the acquisition of Delaware Floor Products and Sloane-Blabon, Congoleum-Nairn completely integrated the production, accounting, and

purchasing activities for the entire organization but not the marketing functions. Two separate marketing organizations were maintained: the Gold Seal Division which had marketed Congoleum-Nairn's products prior to the mergers, and a new Sloane-Delaware Division. The Gold Seal line was then supplemented by vinyl floor coverings while the Sloane-Delaware Division marketed an extensive line of smooth surface flooring materials including both vinyl and linoleum. Under this arrangement each division carried almost identical product lines, but there was little duplication in the particular patterns carried by the Gold Seal and the Sloane-Delaware Divisions. Each division sold through different groups of salesmen to different distributors and each pursued its own advertising and promotional program.

Congoleum-Nairn, Inc. Congoleum-Nairn had been formed in 1924 by the merger of the Nairn Linoleum Company and Congoleum Company, Inc. Nairn Linoleum had been a large producer of linoleum and had been incorporated in New Jersey in 1886. Congoleum was organized in 1916 to take over the assets of its predecessor organization, the United Roofing and Manufacturing Company. Congoleum manufactured the least expensive type of flooring material, enamel surface felt base. Felt base is composed of a felted fiber foundation impregnated with asphaltic material and having a wearing surface of oil paint or baked enamel in an imprinted design. The total yardage sold of this type of flooring, it has been estimated, is greater annually than all other kinds of smooth surface flooring taken together.

Felt base and linoleum were the two main products of Congoleum-Nairn until after its acquisition of Delaware Floor Products. With sales of $24 million in 1946, Congoleum-Nairn had grown rapidly and had realized a volume of sales in 1948 of $60 million. In the succeeding year, sales dropped to $43 million, however, and then rose to $48 million in 1950 and held this level in 1951. Volume increased to $53 million in 1952, the year after Delaware Floor Products had become a division of the company. During this postwar period Congoleum-Nairn sold through about 64 salesmen to approximately 170 distributors. Distributors were not given exclusive franchises and commonly competed against each other in a market area. Distributors in this industry typically carried the flooring products of only one manufacturer, but sold to dealers who usually stocked and sold several competing lines. A large number of Congoleum-Nairn's distributors were hardware wholesalers and the company had strong representation in this type of retail outlet. In addition Congoleum-Nairn sold through flooring wholesalers (specialty houses), furniture wholesalers, and general line paper distributors.[1]

The company's line was extensively advertised in consumer magazines and on television under the Gold Seal brand name. These advertisements fea-

[1] Many general paper distributors and hardware distributors set up departments for carrying specialties such as electrical appliances or flooring, as in this case, and sell these lines in addition to a variety of other products.

tured the exclusive Gold Seal patterns and the extent to which these patterns appealed to the public directly determined sales volume. For example, two of Congoleum-Nairn's patterns, "Jackstraw" and "Classic," were so successful that the company's sales of geometric inlaid linoleum were substantially higher in the spring of 1953 when these patterns were introduced than ever before.

Patterns in inlaid linoleum were of two basic types, variegated and straight-line. In variegated inlaid both marbleized and striated (jaspé) effects were achieved by combining multicolored linoleum mixes without regularity of pattern. Straight-line inlaid repeats a geometric design which has been created by cutting out spaces in a background material and filling these spaces with other pieces of linoleum cut to make a tight fit. This processs made use of automatic rotary straight-line inlaying machines, equipment that was three stories high and so expensive that only four units were in existence, three in the United States and one in Scotland. Congoleum-Nairn owned two of the three machines in the United States and Armstrong Cork Company, Congoleum-Nairn's chief competitor, had the other.

Both variegated and straight-line linoleum were sold in rolls as yard goods (continuous flooring). In addition, a large portion of variegated, both the marbleized and the striated types, was sold in the form of tiles, typically 9″ square, which had been cut from yard goods. During the postwar years, tiles gained in popularity, and sales of this product steadily increased relative to total sales.

Delaware Floor Products, Inc. Delaware Floor Products, Inc., located in Wilmington, Delaware, had been engaged in the manufacture and sale of felt base floor covering but had enjoyed little success in this market. In 1946 executives of the company became interested in the possibility of making continuous vinyl floor covering as a means of competing in a higher priced segment of the market, the market for linoleum. Continuous vinyl flooring was made of a flexible vinyl sheeting about 0.025″ in thickness which was adhered to an asphalt-impregnated felt back about 0.040″ in thickness. This product was manufactured in rolls 72″ wide and as much as 90′ in length. It could be used as continuous flooring or counter top or could be cut up as tiles.

Developmental work was undertaken in cooperation with calendering machinery makers and with manufacturers of vinyl resin. This was the first time that a process had been set up for the commercial manufacture of continuous vinyl flooring, although such flooring had been produced on a laboratory scale by a large chemical company. The chemical company's background of process technology was usefully applied therefore in aiding Delaware Floor Products to set up a vinyl flooring production line. The primary problems which were encountered in the development stages were, first, the appearance of surface streaks and blemishes on the flooring as it emerged

from the calender; and second, difficulties in introducing colorants in such a way as to obtain a satisfactory marbleizing effect. After a year of experimental work these difficulties were eliminated.

Delaware Floor Products marketed this material under its "Flor-Ever" brand name and vigorously promoted it against linoleum. Vinyl flooring exhibited certain superiorities in wearing characteristics. The vinyl had good abrasion resistance and showed excellent resistance to moisture, oils, fats, greases, solvents, and alkaline material including cleaners. In addition, the coloring of vinyl flooring could be light and bright because all the raw materials, the resin, plasticizers and stabilizers, were basically clear. Continuous vinyl flooring could be made in very pleasing striated and marbleized patterns. Flor-Ever was not available in geometric inlaid patterns, however, and as of the end of 1954 it was still not possible technically to achieve such patterns in vinyl. Large flooring manufacturers, nevertheless, were devoting research funds to designing patentable processes by which straight-line inlaid vinyl could be made.

Not having a complete smooth flooring line to sell, Delaware Floor Products found that it could work more successfully through flooring specialty houses, distributors who handled only flooring but who carried the complete lines of another manufacturer. Flor-Ever was also distributed, however, through traditional wholesale channels.

In the initial market introduction of Flor-Ever, Delaware Floor Products' 25 salesmen sought to promote vinyl by demonstrating as dramatically as possible, to wholesalers and retailers, what they considered the strong selling points of their product. Demonstration kits for use in retail stores had been prepared for this purpose. In one demonstration, for example, salesmen could put strips of linoleum and of vinyl in a 5% solution of sal soda and, while the advantages of vinyl were being described to dealers, the linoleum would dissolve and the vinyl remain intact. Another device was to pour ink on test strips of vinyl and of linoleum (after the wax had been removed from the linoleum with carbon tetrachloride). The ink left no mark on the vinyl but the stain could not be removed from linoleum. Finally, the abrasion resistance characteristics of vinyl were demonstrated to dealers by holding linoleum and vinyl against a revolving emery wheel. Other claims of the advantages of vinyl, such as color stability, although not demonstrable on the dealer's premises, were supported by laboratory test data which were made available to retailers. It was also claimed that vinyl flooring as compared to linoleum did not need waxing.[2]

[2] Representatives of the smooth surface flooring industry, including Congoleum-Nairn, in marketing its full line of floor products, point out that comparisons between vinyl and other types of flooring should take into consideration other product characteristics, in addition to the ones mentioned here, such as resistance to indentation and scratching, and dimensional stability. Further, industry representatives indicate that it

Such information provided the dealer with material to use in selling to his own customers. In addition, Delaware Floor Products salesmen distributed literature on Flor-Ever which could be given to retail customers. They held customer demonstrations and supported these efforts with local newspaper advertising. Their work at the consumer level was made very much easier, because by this time the word "plastics" had caught the public fancy and anything associated with plastics generated considerable consumer interest.

Delaware Floor Products profits increased steadily and substantially from 1946 through 1948 (see Exhibit 1). However, in 1949, the company sustained a serious loss for the year's operations and suffered some major financial difficulties. When it was learned subsequently that the president who was chief stockholder of Delaware Floor Products was anxious to retire, Congoleum-Nairn executives became interested in the possibility of purchasing the company.

Exhibit 1. Profits of Delaware Floor Products, Inc.

Year	*Profits*
1945	$148,012
1946	269,094
1947	411,203
1948	704,937
1949	366,038 [d]

[d] Deficit.
SOURCE: Moody's *Manual of Investments*, 1950.

Congoleum-Nairn purchased the assets of Delaware Floor Products for $7,200,000. This move climaxed the purchasing company's growing conviction that vinyl flooring was an important new product in the market and offered the consumer substantial advantages. Had Delaware Floor Products not been for sale, Congoleum-Nairn would probably have constructed its own manufacturing facilities for vinyl flooring.

Congoleum-Nairn executives were impressed, too, with the fact that the investment required for equipment and working capital for making vinyl flooring bore a considerably lower ratio to dollars of sales produced by this investment than was true for linoleum. It was anticipated that return on invested capital would be much higher for the vinyl operation than for linoleum manufacture. Not only were machinery and building costs considerably

is difficult to generalize and to say any one product is best in all respects. Each product has qualities which vary in importance depending upon the conditions under which it is to be used.

It may also be noted here that the claim that vinyl flooring does not need waxing has generated considerable discussion in the industry. It is pointed out that tests indicate that waxing improves both the appearance of vinyl flooring and ease of maintenance as well as its wear resistance.

lower for making vinyl flooring but the production cycle was approximately three hours as compared with a cycle of perhaps 30 to 90 days for linoleum. In the linoleum production process a large portion of the capital investment required and the in-process time involved was accounted for by the fact that linoleum had to be "cured" in multi-storied ovens for 20 to 40 days, depending upon the particular type being made.

Sloane-Blabon Corporation. Sloane-Blabon Corporation, a firm that was formed in 1931 by a merger of the W. J. Sloane Manufacturing Company and the Blabon Company, traced its history through a chain of predecessor concerns, the first of which was started as early as 1807. This company made smooth surface flooring. In 1944, Alexander Smith, Inc., one of the world's largest manufacturers of carpeting, acquired a majority interest in Sloane-Blabon, and then operated this organization as the Sloane-Blabon Division.

Sloane-Blabon manufactured felt base, linoleum, and a full-thick vinyl tile that closely resembled, and competed against, rubber tile. The full-thick vinyl tile was an unbacked material about $\frac{1}{8}''$ in thickness and it sold in the so-called luxury flooring market at higher prices than rubber tile.

This division had spent over $14 million for new manufacturing facilities between 1948 and 1950. Related to the size of the Sloane-Blabon Division, this amount represented a very substantial expansion. The tremendous burden of fixed charges which was assumed and an inadequate distribution program were among the factors resulting in an unprofitable operation. In 1952, the Sloane-Blabon Division lost about $2 million on $15 million total sales.

Congoleum-Nairn's interest in this organization was stimulated primarily by the fact that Sloane-Blabon had installed modern production units for making printed felt base flooring in 12′ widths. Congoleum-Nairn had already appropriated funds to purchase such equipment new when the possibility developed of purchasing Sloane-Blabon at a favorable price. The transaction was completed in May, 1953, and involved an investment of $10,250,000, for which Congoleum-Nairn received assets valued at approximately $23 million.

Although the possibility of acquiring modern equipment for making printed felt base had been the primary consideration in this instance, Congoleum-Nairn executives saw in this move the opportunity of bringing two more vinyl flooring products into the company's line. Sloane-Blabon made full-thick vinyl tile and this company also had a contract with the Paulsboro Manufacturing Company to supply it (Sloane-Blabon) with vinyl plated rotary printed floor covering, a product which competed with the inexpensive printed felt base. The vinyl product was made with the conventional asphalt impregnated felt backing on which was printed design by the photogravure engraved roll process. A protective coating or wear layer of clear transparent vinyl about 0.005″ thick was then applied over the pattern.

Sloane-Delaware Division. For the two-year period between June, 1951, and May, 1953, the Delaware Floor Products Division of Congoleum-Nairn marketed Flor-Ever independently under the leadership of the man who had formerly held the position of Sales Vice President in the predecessor concern. When Sloane-Blabon was acquired in 1953, the decision to maintain two separate marketing organizations was reviewed and confirmed. The Sloane-Delaware Division was then established to sell the products of its two predecessor companies through a force of about 45 salesmen. This move gave the Sloane-Delaware Division a line of flooring products very similar to Congoleum-Nairn's Gold Seal Division. Each division marketed inlaid linoleum, felt base, and continuous vinyl flooring. In addition, vinyl asbestos tile was added to each of the two lines.[3] Sloane-Delaware sold full-thick vinyl resilient tile and vinyl plated rotary printed floor covering; Gold Seal did not carry these two lines but did sell a line of rubber tile. The two divisions used completely different brand names for each product and advertised independently of each other, often in the same magazines.

Congoleum-Nairn executives established the policy that the Sloane-Delaware Division should pursue roughly the same advertising program as its predecessor organizations had followed. This program included some advertising in consumer magazines but with primary emphasis on trade publications. Sloane-Delaware's advertising budget would be lower relative to sales volume than Gold Seal's advertising budget. It was believed that the time and expense involved would be too great to attempt to achieve for the Sloane-Delaware brand names the same degree of consumer recognition that the Gold Seal name enjoyed. The Gold Seal name and the Armstrong Cork name were the most widely known in the smooth surface flooring field. Exhibit 2 indicates the national advertising expenditures of Armstrong Cork, Congoleum-Nairn, Delaware Floor Products, and the Sloane-Blabon Division of Alexander Smith.

Generally, the Sloane-Delaware brand names did not receive the same amount of advertising support as the Gold Seal name. During the period immediately following the acquisition of Sloane-Blabon, the Sloane-Delaware Division was allowed to maintain its historical price differential. However, as quality improved, Sloane-Delaware prices were made comparable with those of other leading lines.

Following the establishment of the Sloane-Delaware Division, executives of this division encountered some difficulty in persuading those salesmen who had previously been selling only vinyl flooring (the original Delaware Floor Products salesmen) to promote, in addition, a line of linoleum. To sell vinyl these salesmen had compared linoleum adversely with the new material. It

[3] Vinyl asbestos tile was made for both the Gold Seal and the Sloane-Delaware Divisions at Congoleum-Nairn's Kearny, New Jersey, plant. These facilities could be used interchangeably for making vinyl asbestos or asphalt tile.

Exhibit 2. National Advertising Expenditures of Four Leading Smooth Surface Flooring Manufacturers

Year	Congoleum-Nairn	Delaware Floor Products	Sloane-Blabon	Armstrong Cork *
1949	$157,000	$ 93,000	$309,000	$ 909,000
1950	595,000	64,000	260,000	1,250,000
1951	905,000	111,000 †	82,000	2,247,000
1952	876,000	96,000	74,000	1,214,000
1953 (1st 6 mo)	459,000	72,000	18,000	1,238,000

* Advertising expenditures on Armstrong's floor coverings and wall coverings only.
† Delaware Floor Products was acquired by Congoleum-Nairn in June, 1951.
SOURCE: *National Advertising Investments.* Leading National Advertisers, Inc.

was somewhat difficult for them to extoll the advantages of linoleum to the same retailers with whom they had been dealing previously. These salesmen were then instructed in the advantages of the other products now included in their line. Thereafter, in selling the full line, Sloane-Delaware salesmen often took the position with retailers that each product had its strong points, that since vinyl was new, the retailer would be well advised to stock, in addition, those products which the consumer had traditionally found to be satisfactory.

The amalgamation of Sloane-Blabon and Delaware Floor Products also created some problems with regard to distributors. Some of the Delaware Floor Products distributors had obtained vinyl flooring from this organization and had been supplied by other manufacturers with other flooring products. With the establishment of the Sloane-Delaware Division, distributors were urged to take the Division's full line. Sloane-Delaware executives firmly believed that the missonary sales work done with dealers by the company's own salesmen could be most effective only when a dealer was able to obtain a full line of the Division's flooring products from the nearest distributor.

As of November, 1953, the Sloane-Delaware Division employed 40 field salesmen and sold through 125 distributors.

Introduction of Gold Seal Vinyl Inlaid. Shortly after the acquisition of Delaware Floor Products, the Gold Seal Division undertook to add a line of continuous vinyl flooring and vinyl tile to its line of established flooring products. Salesmen's experiences in this venture were varied. In some areas Delaware Floor Products had already created consumer acceptance of, and demand for, the vinyl product. In such localities, Gold Seal salesmen met with no dealer resistance to the idea of adding the vinyl line. In other areas dealers exhibited no real desire to have vinyl flooring in stock.

Gold Seal salesmen were of the opinion that vinyls might have been more successfully introduced by means of a special promotion. Such a promotion was subsequently arranged for vinyl tile in the "Bermuda Hues" pattern. In this instance the dealer was given consumer folders, floor displays, window signs, samples and advertising mats featuring Bermuda Hues Vinyl-tile. These tiles had a striated pattern and were available in 10 soft shades: Gulf Stream Green, Mid-ocean Blue, Lagoon Turquoise, Hamilton Red, Somerset Sand, Sea Foam White, Pembroke Yellow, St. George Gray, Coral Beach, and Warwick Wood. Bermuda Hues became a very popular pattern and Congoleum-Nairn personnel regarded this promotion as singularly successful.

Appendix A. Vinyl Flooring Materials

Vinyl Plated Rotary Printed Floor Covering. Description: This material consists of asphalt-impregnated felt backing on which a decoration is imprinted by a rotogravure process. The surface is coated with a clear vinyl film, about 0.005″ in thickness, prepared in a 4-roll calender from a mixture of vinyl resins, plasticizers, and stabilizers.

Advantages: Lower cost than any other type of vinyl floor covering. Unlimited range of patterns and designs by photogravure printing process. Very good resistance to moisture, oils, greases, fats, chemicals and alkaline materials, but limited resistance to abrasions. Very easy to clean and maintain. Clean, bright colors. Flexible and easy to handle. Limited abrasion moisture.

Continuous Vinyl Flooring. Description: This material consists of a homogeneous vinyl wear layer varying from about 0.020″ to 0.050″ in thickness, bonded to a suitable base to give an over-all thickness which usually varies between 0.060″ and 0.100″. In some brands the base is felt impregnated with asphalt or other materials; in others it is cork of a degraded vinyl composition, usually of solid color. This material is currently available in both tile and yard goods.

Advantages: Smooth surface. Colors are bright, clear, and permanent. Flexible, pliable, and easy to handle and install. Easy to maintain. Excellent resistance to moisture, oils, fats, greases, solvents, chemicals, and alkaline materials, including cleaners. Good abrasion and stain resistance. Not significantly changed by aging.

Full-thick Vinyl Tile. Description: Vinyl resilient tile is made without backing of any kind and the vinyl decorative wear layer is usually homogeneous throughout the entire thickness of the merchandise. The product is highly flexible and pliable. At present it is sold largely in tile form and in 1/8″ thickness. Thinner gauge material and yard goods in homogeneous flexible vinyl, however, are now or soon will be available.

Advantages: Homogeneous construction with relatively thick, uniform wear layer throughout. Very smooth, highly polished surface. Colors are bright, clear, and permanent. Very flexible, resilient, and comfortable under foot. Good resistance to permanent indentation. Easy to maintain. Excellent resistance to moisture, oils, fats, greases, solvents, chemicals, and alkaline materials, including cleaners. Good abrasion and stain resistance. Not significantly changed by aging.

Vinyl Asbestos Tile. Description: Products of this type are more flexible than

asphalt tile but particularly in the thicker grades they lack the flexibility of most linoleum tiles, homogeneous vinyl tiles and vinyl tiles having either a backing or a clear wear layer. They consist essentially of a blend of mineral filler (usually largely asbestos) with varying amounts of vinyl resins, other binds, plasticizers, and color pigments. Manufactured only in tile form, this type is unbacked and is homogeneous in nature throughout its entire thickness, which varies from 1/16" to 3/16".

Advantages: Homogeneous construction with relatively thick, uniform wear layer throughout. Lower initial cost than homogeneous flexible vinyl at same thickness. Can be installed anywhere below, on, or above grade. Easier to handle, cut, and install than asphalt tile. Colors are bright, clear, and permanent. More resilient and comfortable underfoot than asphalt tile. Good resistance to permanent indentation. Easy to maintain. Fire resistant, will not support combustion. Very good resistance to moisture, fats, oils, greases, solvents, chemicals, and alkaline materials including cleaners. Good abrasion resistance. Not significantly changed on aging. Longer shelf life, much superior to asphalt tile. Shows scratching less than homogeneous flexible vinyl.

52. STORMENT HAT COMPANY. Sales Program for Small Hat Manufacturer

The Storment Hat Company was a small finisher of men's felt fur hats located in a large middle-western city. The president and founder had been its head since its establishment in 1923. In 1950 sales amounted to approximately $500,000 a year on which the company realized a net profit of 2%. According to the president, this low profit return was quite common in the hat industry. The $500,000 represented a production of approximately 10,000 dozen finished hats, which were for the major part sold directly to retail outlets and bore the company's brand, "Page." In a few cases private brands were used. The company also sold one large chain-clothing company a portion of its requirements. The retail prices of the company's hats were $5, $6.50, $7.50, and $10, which were sold to the retailer at prices of $37.50 per dozen, $43.50 per dozen, $54 per dozen, and $69 per dozen, respectively. These prices were fully in line with those of competitors. However, one of the company's major competitors sold its nationally advertised $7.50 hat for $52.50 per dozen, instead of the company's $54.

The company distributed its products through the states of Michigan, Ohio, Pennsylvania, New York, Kentucky, Washington, and Oregon, through four full-time company salesmen. One of these men had been with the company since its founding and was obtaining a 7½% commission plus a 1% bonus annually, which during the war years had amounted to approximately $18,000 per year and in 1950 ranged between $13,000 and $15,000. The president realized that this compensation was unusually high, but he pointed out that the salesman joined the company at its very beginning and built up his territory completely through his own efforts without any help from the company. "It would thus be impossible," declared the president, "to reduce this

man's compensation in any way." Another salesman, the brother of the president, was receiving approximately the same compensation; it was impossible to reduce his compensation for family reasons. The other two men received compensation ranging from $4,000 to $5,000 annually, but these men were relatively new and not producing sales sufficient to warrant higher compensation. The company usually worked on a straight commission plan of 7½% of sales.

In 1950 the company decided to undertake a program to modernize the plant which would increase production capacity to approximately 75 dozen per day, as opposed to the 60 dozen per day capacity at that time. The president felt, for the company to realize a profit, sales would have to increase from the annual 10,000 dozen to at least 13,000 dozen and he hoped he could get sales up to 15,000 dozen. The need for an increase in sales was pressing in view of the fact that the company's break-even point would be raised as soon as the new equipment was installed. The president believed he could not forego the plant improvement, because his major competitor was already underselling him at $1.50 per dozen, and the company could not keep its customers indefinitely without making a similar price reduction. Such reduction was possible only through lowered manufacturing costs, which in turn depended upon the plant modernization.

The president believed that there was a great reluctance on the part of retailers to change brands of hats sold because of the large inventory required on the one hand, and the strong ties which existed between the retailers and manufacturers' salesmen on the other. The president estimated that it would take at least four years of aggressive sales effort in a new territory before a good man could earn enough to support himself and his family adequately. To break into a new territory with such a product as unbranded hats required a type of selling which was difficult and frustrating from the salesmen's point of view. Because hats were such a bulky item and the average salesman carried approximately 75 as samples, it was impossible to get men to carry hats as a side line.

In view of the fact that the company did not wish to take the risk of financing a salesman for any protracted length of time without tangible sales results, it would require a man with some outside income to assume the expense of setting up a new territory. It was evident to the president that it would be difficult if not impossible to find such a man. Furthermore, the president believed that experienced men with established territories were even more difficult to find, and if available, they would not tend to go with the Storment Hat Company, but rather seek connection with one of the better-known firms. According to the president, a considerable amount of training experience was needed before a man understood hats. Since most retailers carried only two brands, one being a nationally known brand and

the other an unadvertised brand, it took considerable selling to convince a retailer that he should carry "Page" hats as his nonadvertised brand.

Very few people could distinguish the quality of hats. While it had been the company's policy to give to its customers the highest quality hats in each price range, it took an experienced hat man to be able to point out to the trade why the quality of "Page" hats was better than that of competitors. The principal raw material and the principal factor of quality in hats was the unshaped body, and these were available in a wide range of prices. It was therefore possible to have considerable differences in quality in the same price line. Rumors in the trade had it that the major competitor's price was based on a reduction in quality. No one was certain of this, however. The president believed that the company should not make a quality reduction as such a move might injure the company's reputation and good will.

The president realized the difficulty in getting new men to start new territories, and he realized that his present salesmen could not be counted upon to increase volume to any appreciable extent. Thus he foresaw only one alternative and that was to solicit more private brand or chain business. He was concerned about the method of getting this business and also about the wisdom of such a course of action. Should the president decide to get new salesmen, he was desirous of learning the methods to be used in selecting them and training them. He was also concerned about how he could assure himself that the new man would not leave the company before the company had realized its investment in him.

53. WHITING CORPORATION (B).[1] Sales Program for Established Industrial Product

The principal product line of the wholesale division of the Whiting Corporation was small electrically operated mechanical hoists which had numerous applications throughout industry. Up to April, 1950, executives of the Whiting Corporation lacked confidence in the company's ability to distribute the product since the Whiting name was relatively unknown in the chain hoist business. Executives were inclined to conclude that they could not get the leading mill supply houses to handle the product. Furthermore, executives believed that, in view of these circumstances, the Whiting product had to be sold below the established market price. The hoists, which were quoted at an average price of $230 a unit, were generally sold to the final user by the mill supply house salesman who called upon the customer together with Whiting representatives. These customers would sometimes be entertained and extensive negotiations would often follow. In April, 1950 the new vice president of the wholesale division became convinced that this type of distribution was both ineffective and unprofitable since selling ex-

[1] See Whiting Corporation (A), p. 241, for introduction and background.

penses exceeded $100 per hoist while the company's gross margin on the product was only $60.

One of the first steps undertaken by the vice president was to rewrite the catalogue describing the electric chain hoist in order that it have more appeal to the ultimate buyer and the distributor. The new catalogue emphasized the usefulness of electric chain hoists, while the previous catalogue had concerned itself primarily with explaining the technical features of the Whiting product. After the catalogue was completed, the wholesale division embarked upon what it termed the "cream of the crop" program.

The initial step in the plan was to establish a strong distributor organization. Executives determined the number and type that were desired in each area. Each salesman was then instructed to call upon the best distributors in his territory in an effort to get them to handle the hoists. In order to assure the selection of good distributors who would aggressively sell the product, the requirement was made that each distributor must maintain at least five electric hoists in stock and have at least three salesmen in his employ.

An adjunct to the cream of the crop program was a new discount schedule. The standard trade discount given by manufacturers to distributors was 25% and 5%. However, in launching the cream of the crop plan, additional discounts for volume were to be given. If a distributor during the first six months of the fiscal year bought eight hoists, he obtained a retroactive discount of 3%. For 10 hoists he obtained 4%, 15 hoists 5%, 22 hoists 7%, and 30 hoists 10%. These discounts were given at the end of each six months' period starting September 1, 1950. It also was necessary for salesmen to convince existing distributors to cooperate with the company in its cream of the crop plan. By January, 1951, 115 distributors were selling the company's electric chain hoists and the vice president hoped to increase this number to 150.

Once the manager of the distributing organization had agreed to cooperate in the cream of the crop plan, a meeting was arranged for the distributors' salesmen, and the Whiting salesman presented the plan. As an aid in making this presentation, each Whiting salesman had in his possession a manual which had cost $500 to prepare, which he would place in front of the meeting, and by turning the pages of this manual make his presentation.

As part of the plan, the distributors' salesmen were supplied with a smaller presentation manual which they were to employ in selling the hoist to the final user. In order to make sure that the distributors' salesmen would actually make use of the books, each distributor was limited to ordering only a sufficient number to supply to men selling hoists. Furthermore, he was sent an invoice memorandum charging him $5 per book. This invoice was not to be paid, but it was intended to serve as a reminder that the books had a value and remained the property of the Whiting Corporation. In the books

themselves, one sales feature of the Whiting hoist was described on each page in language addressed to the distributor salesmen. Thus, the salesmen using the book would point out to the customer that the manual was intended only for salesmen. The vice president believed that a distributor salesman, using the manual as a selling aid, would be forced to give a more complete and understandable presentation of the product. A supply of small give-away catalogues describing the hoists was furnished to each distributor.

During the presentation to the distributors' salesforce, the Whiting salesman stressed the value of selling a Whiting product, pointing out the size and reputation of the company and the wide range of products it manufactured. The presentation then entered the area of pointing out why hoists were needed and why a distributor should sell hoists; and lastly, point by point, the superiority of Whiting hoists. Since this presentation paralleled the copy in the small give-away catalogue, it was hoped that the distributors' salesmen, when explaining the company's catalogue to a prospect, would give a similar detailed presentation. After the Whiting salesman had explained the electric chain hoist, he proceeded to present the cream of the crop plan.

The basis of the plan was a belief that 20% of its customers accounted for 80% of the business for each distributor. The cream of the crop plan was designed to make the distributors' salesmen concentrate their efforts upon this 20%. The Whiting plan included active support of such efforts with a direct mail advertising campaign.

In order to determine which were the cream of the crop, each distributor salesman was asked to list those firms in which lifting operations were performed. After such a preliminary study, he was directed to compile a list of 30 accounts which he wrote down on a special form (Exhibit 1). (It was estimated that each distributor salesman had 150 active accounts.) On this form, in addition to naming the firm and the type of operation, he specifically mentioned the individual or individuals who were responsible for buying or approving the purchase of the hoist. These complicated forms were then given to the advertising agency of the Whiting Corporation which subsequently sent three mailings to each name on the distributors' stationery over the salesman's signature.

The first mailing was a short, personalized letter with an enclosure (Exhibit 2). The second mailing was sent two weeks later followed by the third mailing in two weeks, each consisting of a short letter and an enclosure. The Whiting Corporation expected to receive about 10,000 names, and it was estimated that the cost of the campaign would be 6 cents per name per mailing. A list of the prospects, the dates of the mailing, plus a copy of the mailing was sent to each distributor salesman, who was expected to call upon the accounts which received the mailings.

In order to check up on the effectiveness of the campaign, the Whiting Corporation required that the distributor sales manager, together with the

Exhibit. 1. WHITING CORPORATION

Exhibit 1. (*Continued*)

DISTRIBUTOR COMPANY NAME

DISTRIBUTOR COMPANY SALES MANAGER'S NAME

ADDRESS

CITY ZONE STATE

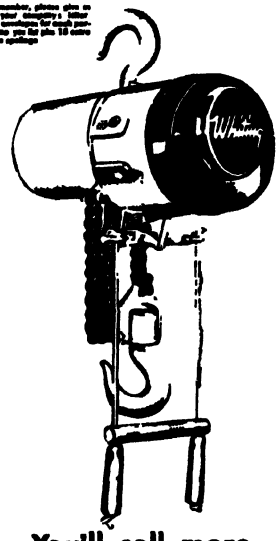
*Please note the number of salesmen in organization who will participate in program.

DISTRIBUTOR SALESMAN'S NAME AND INITIALS

DISTRIBUTOR SALESMAN'S HOME ADDRESS

CITY ZONE STATE

Mailed December, please give us three of your salesmen's names and envelopes for each person name you for plus 10 extra for possible spoilage



You'll sell more

WHITING

ELECTRIC

HOISTS

with this

"CREAM OF THE CROP" plan

1
NAME OF FIRM
STREET ADDRESS
CITY ZONE STATE
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION

2
NAME OF FIRM
STREET ADDRESS
CITY ZONE STATE
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION

3
NAME OF FIRM
STREET ADDRESS
CITY ZONE STATE
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION

4
NAME OF FIRM
STREET ADDRESS
CITY ZONE STATE
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION

5
NAME OF FIRM
STREET ADDRESS
CITY ZONE STATE
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION

6
NAME OF FIRM
STREET ADDRESS
CITY ZONE STATE
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION
INITIALS AND NAME OF PERSON POSITION

Exhibit 2.

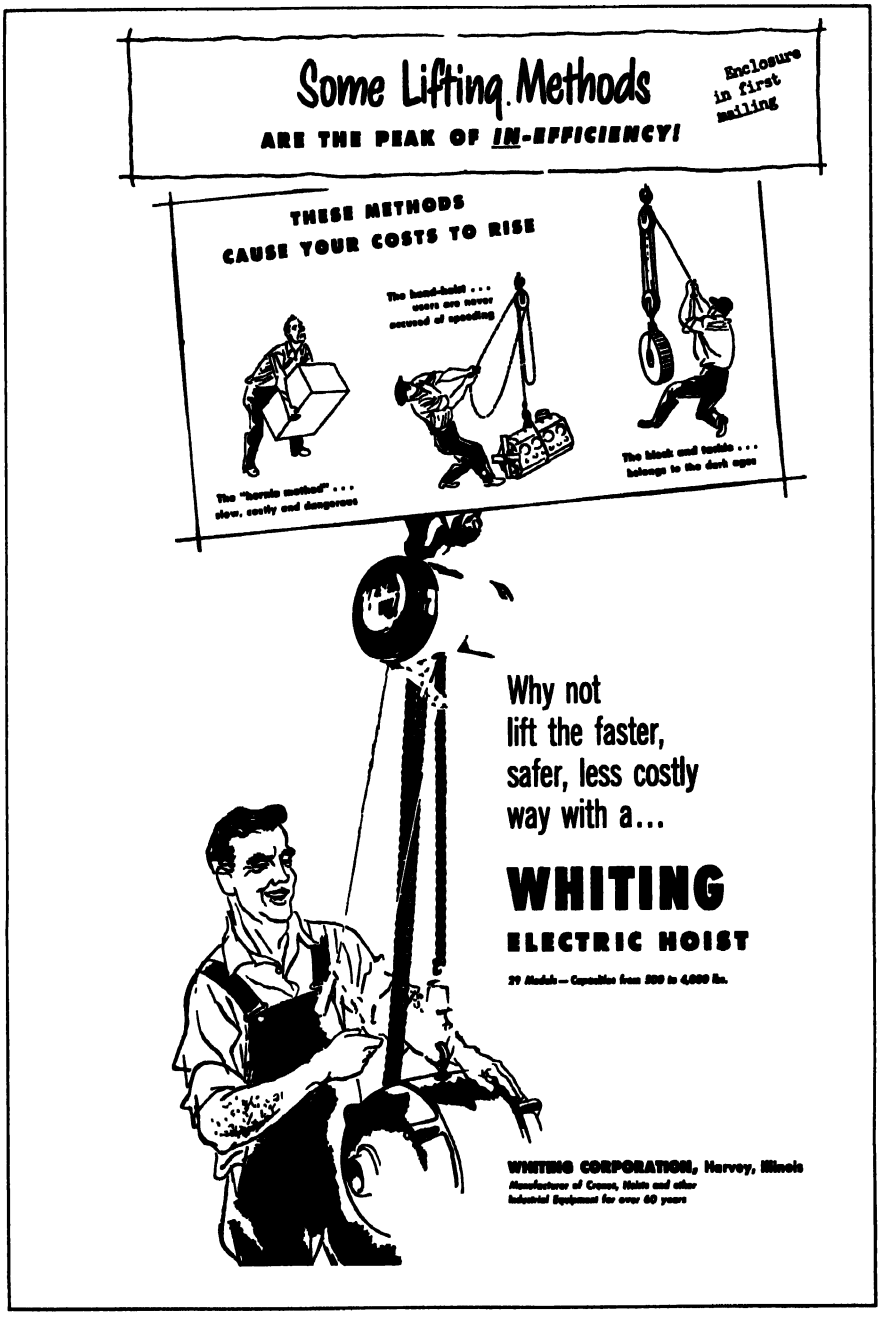

Some Lifting Methods
ARE THE PEAK OF IN-EFFICIENCY!
Enclosure in first mailing
THESE METHODS
CAUSE YOUR COSTS TO RISE
The "heroic method" . . . slow, costly and dangerous
The hand-hoist . . . users are never accused of speeding
The block and tackle . . . belongs to the dark ages
Why not lift the faster, safer, less costly way with a...
WHITING
ELECTRIC HOIST
WHITING CORPORATION, Harvey, Illinois

Exhibit 2. (*Continued*)

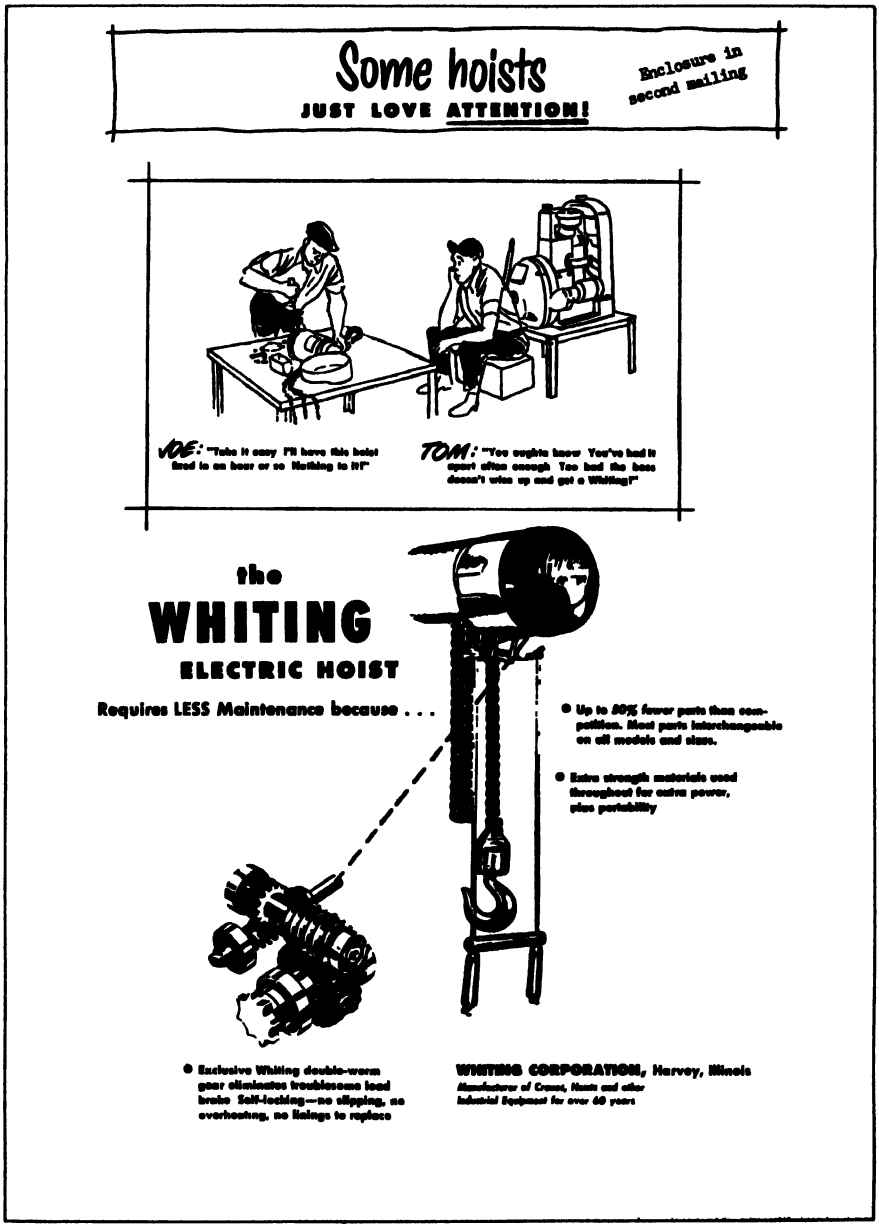
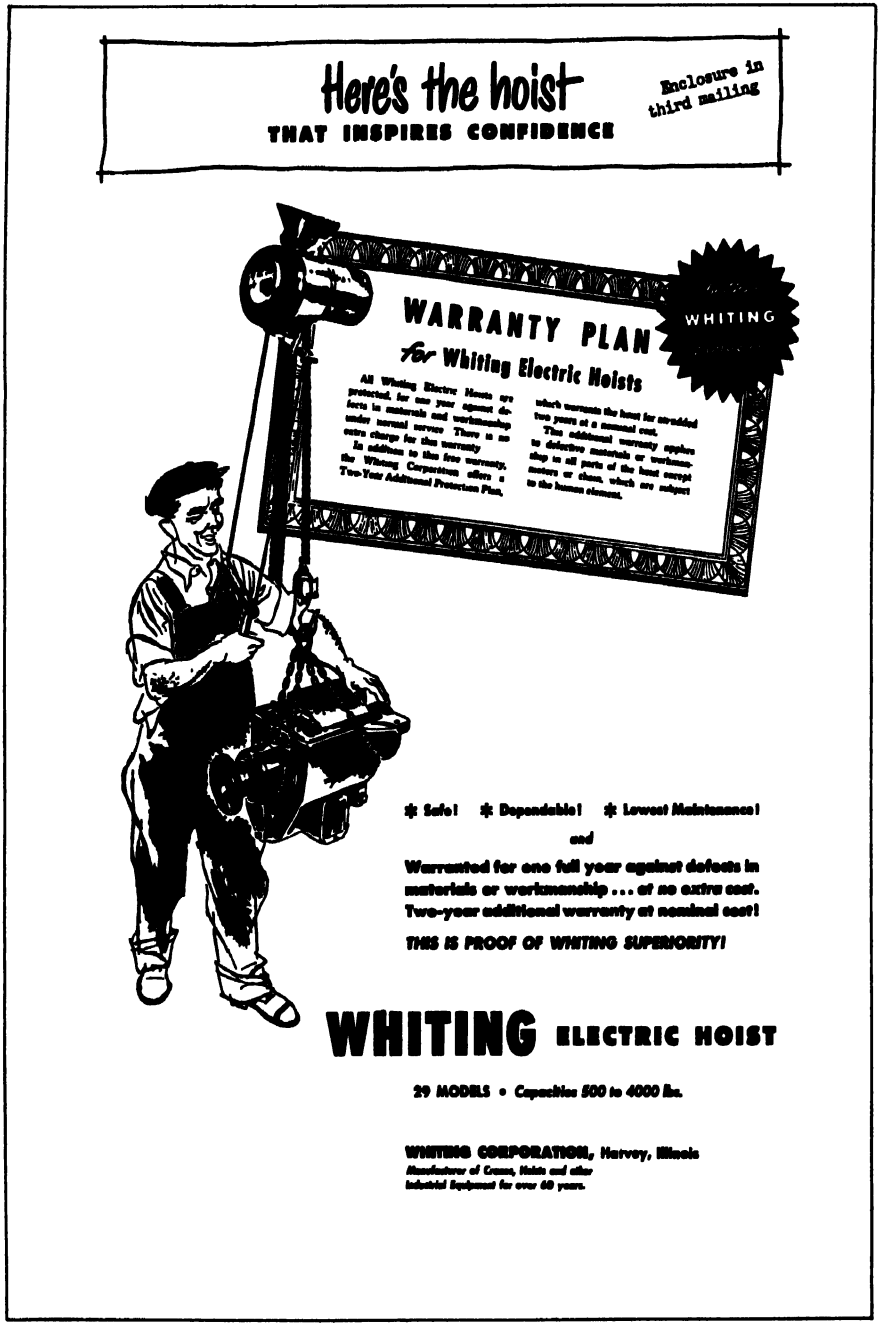


Exhibit 2. (*Continued*)



salesman, check the results by listing the actions taken by each account on the form shown in Exhibit 3. On this form indication was given as to whether the account was sold, whether the salesman was requested to call back, whether additional promotions would be required, or whether it should be dropped from the list. The forms were also checked by the Whiting Corporation salesmen, Whiting Corporation executives, and the advertising agency.

Another advantage of this plan, according to the vice president, was that it was possible for the advertising agency to tabulate the list of 10,000 names in order to determine the positions of individuals who were generally responsible for the purchase of a hoist. This information was then to be used in selecting the media of the company's national advertising campaign.

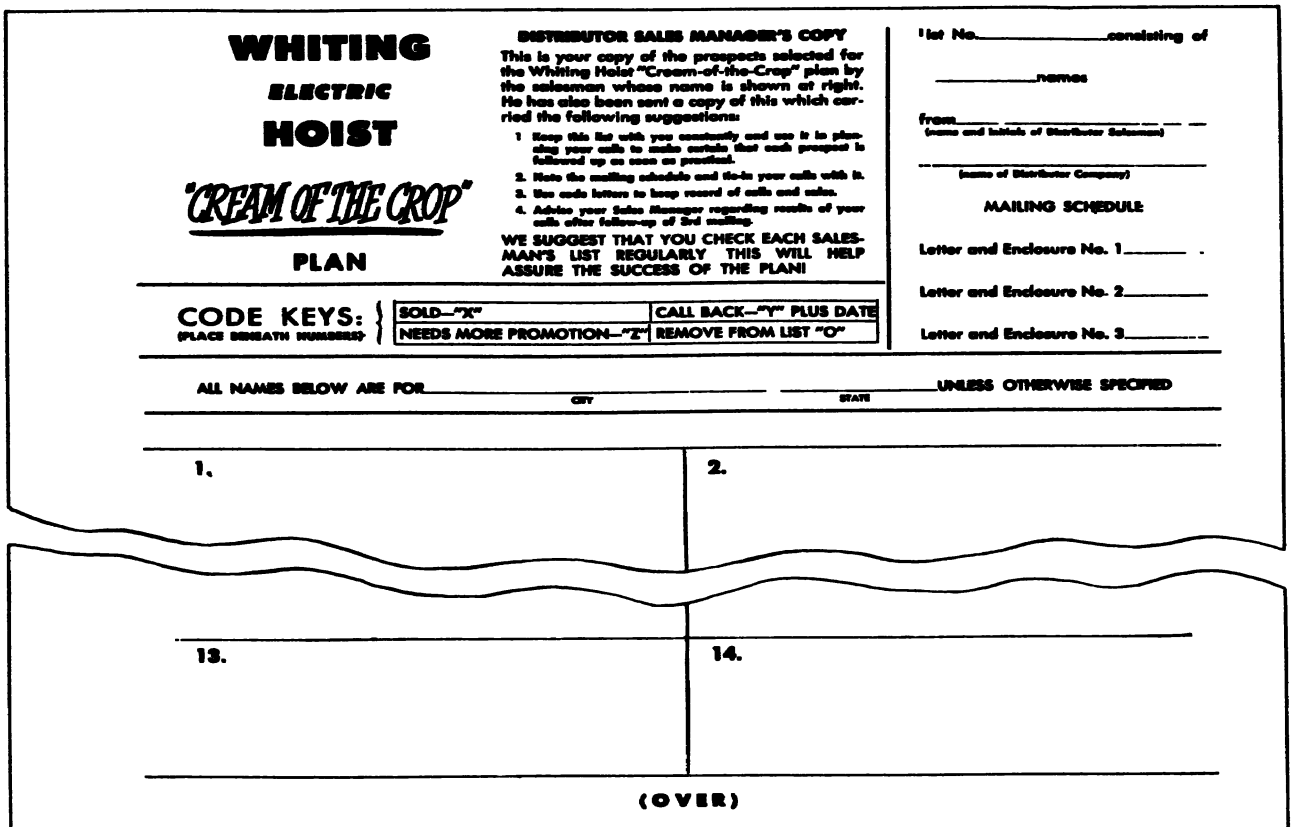
The plan was presented to the company's salesmen in August, 1950, and was first explained to the districts in November with the first mailing during that month. Executives believed that this type of campaign would stimulate the distributor salesmen to sell a considerable number of hoists, and establish the Whiting name in the hoist business where the company had been relatively unknown.

In the spring of 1951, executives pointed out that a second cream of the crop campaign would probably not be undertaken in the foreseeable future in view of the company's oversold condition. However, no distributor was to be deprived of the opportunity of having an initial campaign in his territory.

When in the future the aggressive selling of chain hoists was to become necessary once more, it was expected that the distributors would share some portion of the cost of the campaign. Executives pointed out that, when the full results of the 1950 campaign were measured, they could then decide whether the 30-name limit placed upon each distributor's salesman should be lowered or raised. If the plan proved successful, executives believed that it should be applied to some of the company's other wholesale products, particularly the rotary shears and trimmers which were sold through machinery supply houses.

Introduction of New Product. A research and development project, started in 1948 and successfully completed in early 1950, resulted in the "Trackmobile," a small gasoline motor-driven vehicle which had both rubber tires enabling it to travel on pavements, and at right angles a set of standard railroad wheels so that it could travel on United States gauge railroad tracks. The rubber-tired wheels could be hydraulically lifted making it possible for the vehicles to cross a set of tracks, settle down upon them, and continue travel. In the opinion of executives, the Trackmobile would replace many switching locomotives in use in many factory yards. Although it was claimed that the vehicle could pull up to 200 tons in actual tests, the Trackmobile had moved up to 550 tons of loaded freight cars. Traction to move such loads

Exhibit 3.



WHITING

ELECTRIC

HOIST

"CREAM OF THE CROP"

PLAN

DISTRIBUTOR SALES MANAGER'S COPY

This is your copy of the prospects selected for the Whiting Hoist "Cream-of-the-Crop" plan by the salesman whose name is shown at right. He has also been sent a copy of this which carried the following suggestions:

1. Keep this list with you constantly and use it in planning your calls to make certain that each prospect is followed up as soon as practical.
2. Note the mailing schedule and tie-in your calls with it.
3. Use code letters to keep record of calls and sales.
4. Advise your Sales Manager regarding results of your calls after follow-up of 3rd mailing.

WE SUGGEST THAT YOU CHECK EACH SALESMAN'S LIST REGULARLY THIS WILL HELP ASSURE THE SUCCESS OF THE PLAN!

List No._____ consisting of

_____ names

from _____
(Name and Initials of Distributor Salesman)

_____
(Name of Distributor Company)

MAILING SCHEDULE

Letter and Enclosure No. 1_____

Letter and Enclosure No. 2_____

Letter and Enclosure No. 3_____

CODE KEYS: (PLACE BREATH NUMBERS)

SOLD—"X"	CALL BACK—"Y" PLUS DATE
NEEDS MORE PROMOTION—"Z"	REMOVE FROM LIST "O"

ALL NAMES BELOW ARE FOR _____ (CITY) _____ (STATE) UNLESS OTHERWISE SPECIFIED

1.

2.

13.

14.

(OVER)

was obtained by means of a hydraulic jack which slightly lifted the first attached freight car thereby shifting the load to the wheels of the Trackmobile. It was powered by a 60 horsepower jeep engine which was sufficient to equal the performance of 20-ton switch locomotives. Patents had been applied for, but these had not been granted by January, 1951.

Several factors indicated to executives that a lucrative market existed. While switch locomotives cost $15,000 to $20,000, and Diesel locomotives cost from $20,000 to $75,000, the Trackmobile which in many cases served the same purpose and was much more versatile had much lower capital cost. Another appeal was its weight [2] of only 6,000 pounds as contrasted to a locomotive which weighed 100,000 pounds. In view of this weight factor, executives believed the company should have no difficulty in obtaining steel to manufacture it since the government should be glad to give priorities to an item which actually saved steel.

The executives of Whiting Corporation were particularly interested in the aggressive promotion of the Trackmobile since it appeared to them that such an item should be less subject to cyclical fluctuations in demand than the company's other products. Since executives decided that they did not want to distribute this product directly to the final user, it was evident that some type of distributor was needed. It was finally decided that the materials handling specialists would be the most suitable. These were firms which sold relatively few products, specializing in such items as lift trucks, small tractors, and similar products.

Originally it had been suggested that the best way of introducing the Trackmobile would be to build a special trailer for it and sell it throughout the country to distributors. However, the vice president in charge of the wholesale division believed this type of introduction would not be sufficient. He felt it took showmanship to sell distributors and believed that the introductory program must be carefully planned and timed, and that its focus should be a show which was to include a striking demonstration.

Accordingly, on November 15, 1950, a large party and show was held in Grand Central Station in Chicago, Illinois. To this party 300 members of the press, 100 leading industrialists, and 15 to 20 bankers had been invited. It had been arranged to use the station during a time when no trains were scheduled for arrival or departure. Facilities for cocktails, a loud-speaker system, guides, and other features believed necessary for a successful show were included. The Baltimore & Ohio Railroad had made available to the company loaded and unloaded freight cars, coal cars, and switch locomotives. Guests were first invited by mail. If they did not reply, a telegram was sent. If they still had not answered, they were called by telephone. This assured the company that attendance would be good. In order to make sure that a

[2] The Trackmobile was light enough to be transported by plane.

dealer organization would exist to back up the show, executives of Whiting had secretly shown the Trackmobile to 25 distributors and had given them franchises.

The official presentation of the Trackmobile was later described by the vice president as a "phenomenal" success. The company received free publicity releases in *Time, Fortune, Business Week, Look, Quick,* and several other foremost magazines, stories in leading newspapers including the *St. Louis Post Dispatch;* and articles in most trade journals. The show, which cost $5,000 to $6,000, yielded an advertising return considered worth many times this figure. On January 24, 1951, the company was still receiving inquiries at the rate of 12 per day, although no advertising expenditures had been made. Although not one Trackmobile had as yet been produced, the company had $450,000 worth of orders on its books.

Whiting executives had come to the conclusion that the distributors should sell the product on the basis of demonstrations in the customers' plants, because experience had indicated that four out of five demonstrations resulted in a sale. In order to assure the proper utilization of the Trackmobile, the conditions of sale to a user included one clause permitting the distributor to spend up to three days in a customer's plant to instruct the latter's personnel, and another clause stating that the distributor alone was to be allowed to furnish technical service.

The price of a Trackmobile was $7,950 delivered. Distributors paid $6,375 f.o.b. plant, Harvey, Illinois. It was carefully pointed out to the distributors, however, that their margin included a $100 provision for the cost of demonstration, $175 freight, $100 cost of instruction, and $75 for three months' service, making the dealer's full cost $6,825.

At the end of January, 1951, the Whiting Corporation was setting up production for the Trackmobile. In view of the great success of the Chicago show, a similar introductory show was held in Montreal in the first week of February in order to introduce the Trackmobile in Canada.

54. NORTHEASTERN DISTRIBUTORS, INC. Sales Program of an Electrical Appliance Distributor

Northeastern Distributors, Inc., with sales volume in the seven-figure bracket, was the outgrowth of a small business organized in 1923 as an electrical specialties company. Mr. Ullman, its founder and president, started the company as a wholesaler of radio parts and accessories. Because of the growing importance of the radio industry, the company's name was changed in 1925 to Northeastern Radio. When its field expanded to appliances and associated lines, again the name was changed, this time to Northeastern Distributors, Inc. Prior to 1926 the company handled various makes of radios. In June of that year, however, the company was appointed exclusive distributor for Zenith radios, and in 1951 it had become the second oldest Zenith

distributor in the nation. Branches had been operated at various times in Springfield, Hartford, and Providence until 1937, when it was decided to carry out all distribution through the company's headquarters in Boston. This concentration of effort increased sales considerably and was instrumental in building closer dealer relationships. In 1937 Northeastern was appointed exclusive distributor in the Boston area for Gibson refrigerators and electric ranges and Thor laundry equipment. Other major lines have been added since that time.

Early in 1942, in an effort to offset losses in sales volume resulting from the steadily decreasing supply of electrical appliances, Northeastern added several furniture items, a line of paints, and assorted types of floor coverings. The company was successful in promoting the substitute items and, as a result, the sales volume throughout the war supported a salesforce only slightly smaller than the prewar selling organization. In 1946 manufacturers refused to grant exclusive territorial rights on the newly acquired lines and Northeastern dropped all but one furniture line. The company had exclusive distribution rights on all its major lines for the Boston trading area.

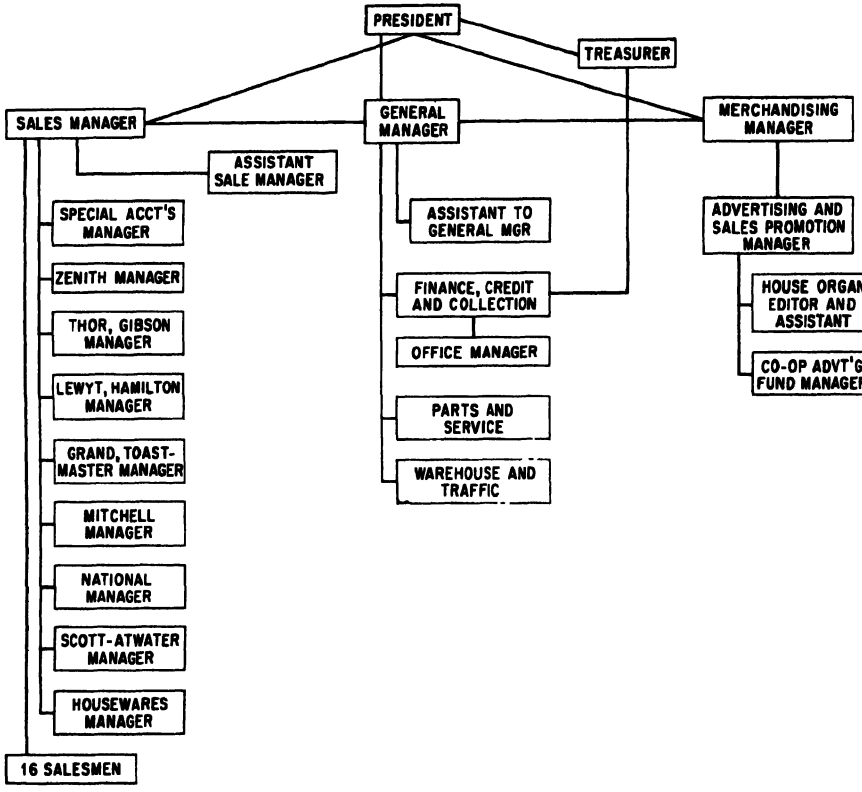
Reporting to the president were the general manager, the sales manager, the merchandising manager, and the treasurer (Exhibit 1). The president was involved in all major policy decisions. Day-to-day operations were under the direction of the general manager, who, in addition to management functions, took charge of all contacts with suppliers and was responsible for buying all lines. Reporting to him on finance, credit, and collection matters was the assistant treasurer. Policy questions in these matters were referred to the treasurer. The parts and service manager and the warehouse and traffic manager also reported to the general manager.

The merchandising manager developed the promotional and merchandising program in cooperation with the advertising and sales promotion manager, who was responsible for carrying out the promotional programs and supervising the salesmen's merchandising efforts. The advertising and sales promotion manager had two assistants. One directed the publishing of the house organ and assisted the advertising and sales promotion manager; the other administered the cooperative advertising funds.

The sales manager directed the efforts of the company's 16 salesmen and supervised the activities of the 8 line managers, each of whom was responsible for the sales of a particular product line. With the exception of the Scott-Atwater outboard motor, all products were handled by the general salesforce, under the direction of the sales manager and under the supervision of the merchandising manager and the advertising and sales promotion manager. The outboard motor was sold by one man who devoted most of his time to this activity.

The company salesmen were paid on a drawing account against commission basis. Each man was allowed $100 a week, against which were credited

Exhibit 1. NORTHEASTERN DISTRIBUTORS, INC. Organization Chart



basic commissions of 1½% of shipments, except on television sets where a 1% commission prevailed. An additional amount equal to 1% of his sales volume was created each month as an incentive and was earned by the salesman only after he had performed certain specific assignments. One-half of the 1% incentive was paid for obtaining proper distribution of sales among lines as well as among dealers; 30% for realizing the expected sales volume from specific special accounts; and 20% for fulfilling the monthly sales promotion assignment. Earnings of the salesmen in 1950 ranged from $8,000 to $20,000, the average being approximately $12,000.

Product Lines Handled. The major lines distributed by the company in 1951 were the following: General Air Conditioning Company combination refrigerators and sinks; Gibson electric ranges, refrigerators, and freezers; Zenith radio and television sets; Thor washers, ironers, and sinks; Lewyt vacuum cleaners; Hamilton clothes dryers; Grand gas ranges; National sewing machines; Mitchell air conditioning units; Toastmaster automatic water heaters; Scott-Atwater outboard motors; General Electric Company electric

housewares. The company also distributed other electric houseware items. The company sold to radio, radio and appliance, music, hardware, dry goods, and department stores. The retail stores were selected after being recommended by the field salesmen and approved by the general sales manager. A dealer usually was granted exclusive distribution rights if he was able to produce the sales volume expected from his locality.

The close relationship that existed between Northeastern and its dealers was regarded by the president as the company's greatest asset. In line with his policy of building and maintaining strong ties with dealers, the company's sales and merchandising organizations devoted much of their time to working with dealers. Each salesman aided dealers with their problems, and the merchandising department was responsible for developing promotions designed to meet individual dealer needs. Execution of the special promotions was carefully supervised by Northeastern salesmen and executives.

The company house organ, "Northeastern News," served as a valuable link among manufacturers and dealers. The four-page tabloid-style newspaper was published monthly. It carried accounts of manufacturers' current campaigns and dealer promotions and stressed dealer sales activities which were out of the ordinary. Photographs, dealer names, and personal items were used in an effort to obtain good readership.

Quotas for each territory, dealer, and salesman were developed by the company from statistical information in Department of Commerce publications, *Sales Management, Electrical Merchandising,* and the *Federal Reserve Bulletin*. Market investigation in each area was used as the basis for deciding upon the number and type of retail dealers required and judging performance of salesmen and dealers. Of a total of 850 dealers, 100 were considered "prime dealers," since they were franchised for the Zenith, Thor, Gibson, and Lewyt lines, which accounted for the largest percentage of the distributors' sales volume.

The manufacturers of appliances used several means to stimulate distributors to push their lines (Exhibit 2). Direct personal contact by the manufacturer was one of the most effective. Many manufacturers held annual national or regional distributor meetings at which they presented their programs to "sell them to the distributors" (Exhibit 2, column 1). Close contact with distributors was maintained through the use of factory representatives (Exhibit 2, column 3), some of whom called upon Northeastern as frequently as twice a month, while others called only once a year. Representatives who called less frequently usually made short "social" visits lasting only an hour or two. Those who called more regularly, however, stayed at the offices longer and were helpful in bringing new ideas to the attention of Northeastern's executives. Some factory representatives did field work with dealers. The general manager believed that they were most useful when calling upon retail dealers with the company's salesmen. He recognized,

Exhibit 2. NORTHEASTERN DISTRIBUTORS, INC. Manufacturers' Sales and Promotional Activities Affecting Northeastern Distributors, Inc.

Product line	Annual national or regional distributor meetings	Average No. of mailings to distributors per month	Calls per year on distributors by mfrs.' representatives	No. of mfrs.' promotions per year	Promotions packaged, partially prep or not prep	Minimum quotas for distributors on promotional material	Electric window signs		Outdoor identification signs	Cooperative advertising, %			1950 National advertising by manufacturers (in dollars) *
							Indoor	Outdoor		Dealer	Dist	Mfrs.	
Gibson refrigerators, electric ranges, freezers	Yes	2 or more	24	6	NP	Yes	Yes	No	Yes	50		50	$ 309,234
Grand gas ranges	Yes	Less than 1	4	Less than 3	NP	No	Yes	No	No	50	25	25	
Hamilton dryers	No	1	6	3	NP	No	Yes	No	No	50	25	25	157,106
Lewyt vacuum cleaners	Yes	4 or more	8	12	P	Yes	Yes	No	No	50	25	25	361,491
Mitchell air conditioning units	No	1	12	Less than 3	NP	No	Yes	No	No	50		50	
National sewing machines	No	0	4	Less than 3	NP	No	No	No	No	None			
Thor washing machines, ironers, sinks	Yes	1	12	12	P	Yes	Yes	Yes	Yes	50		50	453,389
Toastmaster automatic water heaters	No	Less than 1	1	Less than 3	NP	No	No	No	No	50	15	35	91,757
Scott-Atwater outboard motors	Yes	Less than 1	0	Less than 3	NP	No	Yes	No	No	50		50	
Zenith:													
Radios	Yes	2 or more	8	10	PP	Yes	Yes	Yes	Yes		50	50	1,666,946
Television										(½ of fund reserved for nondealer ads) 25	37½	37½	

* Figures include only national advertising expenditures for space or time in magazines, newspapers, network radio, and network television. Expenditures under $50,000 not reported

SOURCES. "National Advertising Investments in 1950," compiled and published by Leading National Advertisers, Inc., and "Expenditures of National Advertisers in Newspapers, 1950," issued by Bureau of Advertising, American Newspaper Publishers Association.

however, that the representatives usually had other distributors to call on in Portland, Hartford, Providence, Rutland, and, occasionally, in New Haven and Springfield. The travel time required for all these calls made it difficult to work in extensive visits with dealers. It appeared to the general manager that a good distributor benefited less from representatives' calls than a poor one.

In order to keep his name in the minds of the distributors, the typical manufacturer sent out notices and bulletins which gave promotional suggestions and industry news items (Exhibit 2, column 2). The frequency of such mailings varied widely. Lewyt sent one practically every day, while National sent none.

Manufacturers' Promotions. The manufacturers tried to enlist the cooperation of distributors by running several factory-sponsored promotions a year (Exhibit 2, column 4). Sometimes these promotions were so fully prepared by the manufacturer that little effort was required of the distributor in carrying them out. The sales promotion and advertising department of Northeastern expressed a great appreciation for fully prepared "packaged promotions" (Exhibit 2, column 5).

Manufacturers furnished the distributor at cost with all necessary promotional supplies such as advertising mats, point-of-sale display pieces, and posters. Some manufacturers established minimum quotas on the amount of promotional material the distributor was to buy, which restricted Northeastern's freedom in deciding which line it should promote at any one time (Exhibit 2, column 6).

Identifying the dealer with the products he sold was an important part of each manufacturer's merchandising program. Consequently, many manufacturers required the distributor to sell the dealers indoor electric window signs, outdoor window signs, and large outdoor display signs (Exhibit 2, columns 7 and 8). This presented serious difficulties, since it was undesirable to display more than one or two signs on a store front. Northeastern offered all the signs of manufacturers to the dealers. Acceptance by the individual dealer of the various product lines usually determined which signs he used.

All but one of the manufacturers had cooperative advertising plans which the distributor had to administer with its dealers (Exhibit 2, column 9). Advertising run under these plans was paid for jointly by the manufacturer, the dealer, and, in most cases, the distributor.

Most manufacturers also carried on national advertising programs to build up consumer acceptance for their products and back up the sales efforts of distributors and dealers (Exhibit 2, column 10). National advertising plans were outlined in manufacturers' sales presentations, and advertising campaigns frequently served as a basis for planning point-of-sale displays. Copy themes usually were designed to enhance the prestige of the brand. Lewyt and Thor, however, relied more heavily on direct action copy.

In planning promotional activity, Northeastern considered the importance of the different lines in the company's over-all sales picture, the number of franchised dealers for each line, and the distributor gross margins, which ranged from 15% to 21%.

Lewyt was by far the most aggressive promotionally of all Northeastern's principals. This company, which entered the appliance business in 1946, had experienced an outstanding increase in sales volume in five years' time. The company had started with the policy of creating demand for its product prior to establishing distribution. Consequently, Lewyt embarked upon a national advertising campaign before its distributors were appointed. Subsequently, the distributors obtained dealers. Lewyt's heavy promotional and advertising program continued after distribution had been established. The manager of Northeastern's advertising and sales promotion department stated that the Lewyt Company believed that the more promotional material it issued to distributors, the more would be used in stimulating dealers; that the manufacturer who kept the greatest pressure on distributors was likely to receive the most attention. Lewyt's efforts far exceeded those of the other manufacturers. Four or more bulletins and letters containing promotional ideas were issued each week. Lewyt sent out "packaged promotions" which required little or no effort from the distributor in tailoring them for dealer use. Each Lewyt promotion was accompanied by manuals for the distributor's sales men, bulletins to be sent by the distributor to dealers, and other features necessary for presenting such a campaign to dealers. In following through on a Lewyt promotion, Northeastern usually could hand its salesmen the complete packages as received from the company.

Most of the promotions for Lewyt vacuum cleaners were "traffic gimmicks." In one of the most successful, the dealer was sold scatter pins for 15 cents apiece which he presented to women who came in to see a Lewyt demonstration. In addition, Lewyt supplied radio scripts and direct mail pieces. Of the 10 to 12 promotions run each year, only 4 or 5 were termed "full-scale" promotions; the others were ideas and suggestions for local adaptation.

Thor also planned and packaged complete promotional campaigns, and recently it had stepped up the number issued from four a year to one a month. Thor required distributors to be more selective in granting dealer franchises than did many manufacturers. On the basis of its market studies, Thor told Northeastern how many dealers it was allowed to franchise, how many were to be located in each town in its territory, and how many were to be "AA dealers." Seventy-five per cent of Northeastern's Thor dealers received the AA classification, which meant that they had signed a special franchise agreement covering minimum stock requirements, minimum sales volume, promotional material to be purchased, and dealer identification signs to be displayed.

The Zenith Corporation was using more packaged promotions than formerly, which meant that Northeastern's promotion department was required to spend comparatively little time adapting Zenith promotional material for use by salesmen in the Boston territory.

Gibson came out with comparatively few package promotions and depended heavily on the distributor to do most of the promotional work. A sum was allowed for promotions which Northeastern was expected to manage. This free rein was appreciated, since consumer acceptance for the Gibson line still had to be established. Such events as cooking schools and television programs were used to develop such acceptance, and they were believed to be quite effective. A telephone survey conducted in December, 1949, indicated that 9% of the respondents recognized the Gibson name; in December, 1950, that figure had increased to 37%.

The manufacturers of the company's other lines offered no planned promotional programs. Instead, they depended upon the distributor for the promotion and sale of their products, including the task of building product consumer acceptance. All but one of these manufacturers made available funds for cooperative advertising, but Northeastern regarded cooperative advertising as a direct action sales help for establishing dealer identification rather than as a means of building consumer acceptance for a product. These manufacturers offered few display advertising mats, advertising proofs, or direct mail pieces. While Northeastern would run promotions on these lines, they were not expected to have the same impact as promotions on the major lines, since national advertising was regarded as essential for full effectiveness.

Several promotions usually were running concurrently, and the manager of the Northeastern sales promotion department believed the salesmen should push one as actively as another. In order to check up on their performance, regular meetings were held with the salesmen by the advertising and sales promotion manager, who also made frequent visits to dealers to see that the campaigns were adequately carried out. The merchandising division kept records of promotions by men and by lines as a further check on sales performance. Since all salesmen were in the head office from 8:30 to 9 every morning, frequent contact was possible. The advertising and sales promotion manager believed that careful control of salesmen was necessary, since it was difficult to convince them that the sale of promotional material was equally as important as the sale of goods, even though no commission was received on the former.

The company attempted to carry out all the promotional programs offered by manufacturers. As the manufacturers expected the company to buy a considerable number of their promotional pieces, Northeastern faced a problem of determining the number of these items to order for any one campaign. Lewyt, Thor, Zenith, and Gibson frequently established minimum quotas. As a result, Northeastern at times was left with an inventory of

promotional pieces it could not use. In the spring of 1950, for example, the company had a considerable inventory of Glass Wax, moth crystals, and dust pans which had been used as give-aways in various Lewyt campaigns during 1949. In order to liquidate this inventory, Northeastern offered dealers a special "spring housecleaning" kit, consisting of one can of Glass Wax, a box of moth crystals, and one dust pan to be given to every woman who watched a Lewyt demonstration.

The sales promotion department of Northeastern developed many presentations which were used in addition to or instead of the manufacturer's. They consisted both of company-wide promotions designed to push a given line and promotions intended to help a particular dealer or salesman.

Northeastern worked on the principle of concentrating sales and promotional effort on the weaker lines where it was most needed. Usually the latter included the lines of manufacturers who provided the least promotional help and maintained the least pressure on the distributor. Generally, the manufacturers of strong, established lines applied the most pressure and established quotas for distributors. The company tried to compensate for this, but recognized that it could not do so completely.

During 1950 Lewyt directed its distributors to push Lewyt electric signs and displays to dealers. Northeastern had done a good job on this, succeeding in getting electric signs into most Lewyt dealers' stores. However, early in 1951 Lewyt came out with a new but similar campaign. For $4.95 it offered each dealer a new electric sign and four kinds of point-of-sale display pieces. Northeastern was given its quota of pieces to buy. Since the company had done so well in selling Lewyt signs the previous year, it was very difficult for the salesmen to induce dealers to buy these slightly modified new signs which served the same function as the old ones.

Nevertheless, Lewyt required the company to order its quota of signs, and Northeastern faced the problem of how to dispose of them. In previous instances where promotional material could not be sold, the company had reduced the price after a period of six months and eventually had given it away. Since both the dealers and salesmen knew this, there was a tendency for the former to refrain from buying and for the latter to lessen sales pressure. Therefore, the company decided against following the markdown policy. Instead, it gave away one of the $4.95 promotional kits with each order of six Lewyt vacuum cleaners. Executives believed that, if the company was to suffer a loss, it was better to get the material out into the field than to leave it in the warehouse.

To meet this type of problem in the future, the manager of the advertising and sales promotion department proposed making the purchase of promotional material part of the dealer's franchise. The dealer would pay a stated sum at the beginning of each year, and in the course of the 12 months, he would be supplied with all the material that was issued. In this way, book-

keeping expense would be reduced, the waste of promotional material eliminated, requirements planned more accurately, and better use would be made of salesmen's time.

Luxury items had proved better store traffic builders than utility products. Therefore, in the recent past, items such as scatter pins, perfume, and a silver tray had been used. Northeastern had a special Lewyt promotion in 1950 with orchids, which proved to have a greater pulling power than any other item used heretofore. The explanation offered was that the orchids could be seen by other women who would be motivated to attend a demonstration.

Northeastern's Promotions by Types. From the sales manager's viewpoint the company's sales promotional efforts could be classed into four groups:

1. Company-wide active promotions, which were heavily backed by advertising programs and management supervision and in which each salesman had a specific assignment. These promotions were used in calculating the salesmen's compensation.
2. Selective promotions which salesmen could use with specific dealers as conditions warranted. Promotions for dealers who had just taken on a line were an example. A variety of promotions of this type would be running on a variety of lines at any one time. They did not tie in with the salesmen's compensation.
3. Promotions designed specifically for one or more retail accounts. An example was a "cooking school" that the company ran four days a week in cooperation with a different dealer each week. The dealer rented a hall or auditorium, sent direct mail invitations to a list of prospects, and hired a dietician or home economist to run the school. In order to attract prospective customers, a prize was given during the demonstration.
4. Promotions designed for a salesman who was weak in one line when it was desired to improve sales of that line in his territory.

Promotions usually lasted for one month. The decision as to what was to be used as the company-wide active promotion was made by the 25th of each month by the management committee consisting of the top executives. Decision was usually based upon the need for promotion on a particular line, its timeliness, the importance of the product, its sales performance, tie-in with the manufacturer's national advertising campaign, dealers' and company's inventory position of the line, promotional materials and the manufacturer's quota requirements.

The sales manager pointed out that some of the promotions required only a week or two to complete and that they were not made part of the compensation assignment.

The sales manager said that constant control of the salesmen was necessary in order to assure that the various sales promotions were carried out. Although a considerable number of promotions might be running at any one time, he believed that only one or two could be aggressively pushed

by the men and that no more than two promotional assignments could be effectively used for compensation purposes.

In April, 1951, the Zenith Lazy Bones promotion was the only one which directly affected a salesman's earnings. Lazy Bones was a device, retailing for $30, which was used by television set owners to change channels by remote control. The Zenith corporation had required Northeastern to buy a considerable quantity at a special price and the company had decided to sell them to dealers at the same price. To promote Lazy Bones to consumers, Northeastern developed a unique direct mail piece which was supplied to dealers. For an order of 6 Lazy Bones, the dealer received 100 direct mailing pieces free. Each salesman was expected to obtain the cooperation of at least 6 dealers in this promotion. The Lazy Bones campaign was to be tied in with local newspaper advertisements and a direct mail campaign pointed at television set owners who were asked for leads to other prospects. If a sale took place, the supplier of the lead as well as the new customer received a free Lazy Bones. After the third week of the promotional campaign, 5,000 direct mail pieces had been sold at a cost of 5 cents each.

For the month of May, six aggressive promotions were run concurrently:

1. The Lazy Bones campaign was to be continued.
2. The Zenith gift promotion consisting of supplying dealers with a set of direct mail pieces, gift certificates, point-of-sale display pieces, window streamers and retail ad proofs for $1.95 a set.
3. Zenith portable promotion consisting of supplying dealers with sets of window streamers and overhead banners, a supply of folders describing the Zenith portable radio, and retail ad proofs for $1.75 a set. It was important that this promotion be pushed aggressively, since May was considered the most desirable month for promoting portable radios.
4. The Lewyt 1-cent sale, designed to help meet the problem of trade-ins of old vacuum cleaners worthless to the dealer. A chest made of wood and covered with high-quality Lyntex, normally retailing at $24.95, was to be sold to dealers for $7.80. With the purchase of a new Lewyt vacuum cleaner, the consumer could obtain one of these chests for 1 cent and her old vacuum cleaner. This sale was to be promoted with retail advertising and a point-of-sale display. The announcement sent to dealers is shown in Exhibit 3.
5. A promotion for Thor washing machines to tie in with its current advertising campaign of "Only Thor Gives You All Four: (1) hydroswirl action; (2) saves 27 gallons of hot water; (3) you control the washing time; and (4) Thor way overflow rinse." Each Thor dealer would be supplied with a kit promoting these four features. As was true of most other promotions, the dealers were first introduced to it by a direct mail piece sent out by Northeastern (Exhibit 4).
6. The Gibson "flexible promotion," which permitted each dealer to select the size and type of promotion most suitable to his particular situation. A traffic builder sold to him by the company was selected from the following: a

Exhibit 3. NORTHEASTERN DISTRIBUTORS, INC.

plastic salad serving set, an all-plastic knife, a set of six table napkins, and a plastic measuring glass. It was expected that the dealer would advertise in newspapers, radio, or television, offering the traffic builder to anyone who came into the store to watch a demonstration of the Gibson refrigerator. Reprints of Gibson's national advertisements were to be displayed prominently throughout the store to back up the promotion.

The necessity of having more than one or two big promotions running at once constituted a major problem for Northeastern. Selling effort was inevitably weakened when distributor and dealer salesmen had to divide their time among too many things.

The NEAR Program. From the beginning Mr. Ullman had sought to build a strong and loyal dealer organization. In line with that policy, the company embarked upon a new experimental project in 1951. Dealers could not benefit fully from advertisements placed in Boston newspapers, since the majority of the subscribers was not potential customers for any one dealer. Therefore, dealers had been advertising in local papers to a large extent. The company recognized that the major Boston papers offered greater circulation and better readership. One way to take advantage of the larger circulation under these circumstances was to run "list ads" which would illustrate a product and give a list of the dealers selling it. It had

Exhibit 4. NORTHEASTERN DISTRIBUTORS, INC. Special Offer. Thor Ad and Display Package

To All Thor Dealers:

On Tuesday, May 1st, Thor will run a 1000 line ad in the *Boston Herald-Traveler*, featuring the spinner washer. You can get *extra value* from this advertising by taking advantage of this special offer on a *2-inch* tie-in display ad (*not* a listing!) and store display and promotion package.

Your ad will appear *by itself*, not in a block of other dealer tie-in ads, and will include the following copy:

"DON'T SPEND A PENNY MORE!
SAVE WHEN YOU BUY THE NEW 1951
THOR SPINNER WASHER WITH
HYDROSWIRL ACTION."

This copy ties in directly with the theme of the 1000-line national ad. Your store display and promotion package will include:

1 Large wall poster
1 Booklet for retail salesmen
1 Hydroswirl action display
2 Telephone solicitation booklets
50 Postcards
4 Ad mat proofs
1 Set radio spots
1 Window banner
1 Product sticker

This is a $9.97 value, but it's yours for only $5.32. However, TIME IS SHORT—send in the enclosed postage free card NOW to be sure your ad will appear.

Cordially yours,

been found, however, that few readers went through an ad to find the dealer nearest them. In order to meet this problem, Northeastern started an advertising cooperative known as NEAR: "New England Appliance Retailers." A special seal was designed and Northeastern was to direct the NEAR advertising activities. The slogan was to be "Go to your NEAR dealer."

In selecting the NEAR dealers, it was intended to choose a limited number from among the approximately 100 dealers who carried all four of the company's largest selling lines. They would maintain minimum stock requirements, cooperate with Northeastern in all its promotional activities, buy the necessary display material, and prominently display the NEAR seal.

The NEAR project got under way in the summer of 1951 with 11 dealers participating. However, after a few months of effort, it was concluded that the expenditure of time and energy in endeavoring to induce dealers to join the group was so large that the plan was abandoned in favor of more direct sales solicitation.

Throughout the remainder of 1951 and in early 1952, the succession of programs continued with varying emphasis. For three months ending in June, 1952, Northeastern Distributors, Inc., had cooperated with the manufacturer in a highly successful "Springtime in Paris" promotion for Thor washing machines. Northeastern exceeded its sales quota during the promotion which included the following elements:

1. A contest for distributors' sales managers. First prize, to be awarded on the basis of sales performance as measured against sales quotas, consisted of an all-expense, 1-week vacation trip to Paris for the sales manager and his wife. Other prizes also were given.
2. A contest for distributors' sales promotion managers. The latter submitted plans for promoting the sale of Thor washers in their respective territories during the three months. First prize of $350 was won by Northeastern's sales promotion manager.
3. A contest for distributors' salesmen. A fund of $1,500 was distributed among all salesmen who exceeded their sales quotas. The exact sums received depended upon the relative performances of the winners.
4. A Lilt home permanent kit was given to each woman who came into a dealer's store for a demonstration of a Thor washer. The kit, which usually sold at retail for $2.25, was purchased by Northeastern for 75 cents, of which 37½ cents was chargeable to Northeastern's cooperative advertising account which had been built up by equal contributions from the distributor and the manufacturer. The kit was sold to the dealers for 37½ cents. The dealers also bought supporting window and other display material. The kit proved to be such a popular traffic builder that dealers were unable to get all the kits that they needed.
5. A "weekender kit" of cosmetics was offered free of extra charge to each purchaser of a Thor washing machine. The kit, plus contents, was described

as a $39.50 retail value. Northeastern bought it for $9 after Thor had contributed $3 against the listed $12 price to distributors. It was sold to dealers for $6. Dealers were limited to one kit for each washer in stock at the start of the promotion plus one for each washing machine purchased during the three months.

During the summer, Thor had sponsored a promotion which included bonuses for retail salesmen. The latter received a bonus of $7.50 for each automatic Thor washer sold, and a bonus consisting of a punch board chance worth from $3 to $10 for each sale of other Thor washers. Thor put up two-thirds of the bonus money, the distributor one-third.

In the fall, Thor produced for advertising purposes a previously discontinued model of washer which was offered for sale at $177.50, a price $46 lower than that for the corresponding current model. The purpose of the promotion was to attract people into the stores where it was hoped that they could be persuaded to buy the current model. The latter had as a main feature a 5-year warranty for $3 extra in price. The advertised model had only a 1-year warranty. The promotion resulted in a large increase in current model sales.

Northeastern conducted a major promotion for Lewyt vacuum cleaners in July. The manufacturer set sales quotas for the distributors, who developed and carried out their own promotional plans in their respective territories. Northeastern made up daily selling plans for dealers which included the use of newspaper advertisements, direct mail pieces, and telephone solicitations. Northeastern received an "outstanding achievement" plaque from Lewyt for exceeding its quota during the month.

Lewyt had a similar promotion scheduled for November which had been named "Alex Lewyt month" for the president of the Lewyt Corporation. Northeastern's plans for the promotion included the following:

1. Sales quotas were set for each salesman. The salesmen who met their quotas would be guests, along with their wives, of Northeastern at a special dinner and show. Or, if a salesman preferred, he would receive a Chronograph watch instead. The three top salesmen, as determined by performance against quotas, would receive cash awards of $100, $50, and $25.
2. Each person who purchased a Lewyt vacuum cleaner during the month would receive a silver tray, described as an $18 retail value, at no extra charge. Dealers could buy one tray for $3.99 with each vacuum cleaner ordered. To qualify for participation in the silver tray promotion, a dealer had to order at least three vacuum cleaners and three trays, provide a window display (or prominent floor display if adequate window space were not available), and run cooperative newspaper advertising featuring the promotion. Northeastern provided display material at no cost to the dealer.
3. By purchasing six vacuum cleaners on one order, a dealer would qualify to buy from Northeastern a $71.50 Chronograph watch for $14.95. The watch

was to be offered as a prize for dealer salesmen or otherwise used as an extra incentive for the sale of Lewyt vacuum cleaners. With the second order of six vacuum cleaners shipped during November, a dealer would receive a sales promotion credit of $14.95.

The new models of Zenith television sets were introduced to dealers in June. While the manufacturer conducted a national advertising campaign emphasizing quality, no further aggressive promotion of the sets was planned in the fall because demand exceeded supply. A number of localities were getting their first TV stations. The resulting new demand supplemented an increased demand in other areas, and Zenith had allocated sets since June.

Demand also exceeded supply for Zenith FM radio sets. Northeastern had run advertising tying in with station WGBH and its programs, which included broadcasts of Boston Symphony Orchestra concerts.

In the fall of 1952, Northeastern continued its tie-in for Gibson refrigerators and ranges with the "Fun with Food" promotion of the First National Stores, a large retail food store chain. The latter sponsored a 4-day cooking school which appeared each week in a different community within the Boston area on Monday, Tuesday, Wednesday, and Thursday. On Fridays, the Fun with Food cooking school program appeared on station WBZ-TV for one-half hour.

Northeastern furnished a Gibson electric range and a Gibson refrigerator for use in the school and arranged for the dealer in the community in which the school was to be conducted to co-sponsor the event. The dealer would put up a Gibson refrigerator or range to be given away as the grand prize on the final day. To be eligible for the drawing which would determine the winner, each person attending the school had to leave a card containing his name and address at the dealer's store.

Benefits to the dealer of co-sponsoring the event included additional store traffic ranging from 1,500 to 2,500 persons who would come in to leave cards for the drawing, the filled-out cards which furnished names for follow-up mail pieces, and mention of the dealer's name in connection with references made during cooking school sessions to Gibson products. In addition, the promotion meant that Gibson products would be mentioned and shown on a half-hour TV show each week.

The dealer paid 25% of the cost of the refrigerator or range to be given away plus a portion of the cost of newspaper advertising and other promotional material. Gibson and Northeastern shared the remainder of the expenses equally.

In October, Northeastern was developing a freezer-food plan to promote the sale of Gibson home freezers. The customer would buy both a freezer and enough frozen food to fill it. Ownership of a freezer would permit the purchase of food in large quantities at lower prices. Developing the plan

included arranging for a source of supply for the food, lining up dealers, and training dealer salesmen.

In April, 1952, Northeastern added a housewares department, the manager of which reported directly to the president. The department had its own salesforce of five men who sold electric and nonelectric housewares, some specialty lines, and Geneva modern kitchens. Two of the salesmen devoted their full time to the latter. Five salesmen were to be added to the department late in 1952.

The housewares department was added because the company desired to expand by selling items related to its main lines. Housewares usually were handled by the same dealers who sold Northeastern's other products. It was believed that housewares would not be subject to the marked fluctuations in sales volume characteristic of major appliances. Northeastern planned to promote the sale of housewares by offering merchandising assistance to the dealers, something which had not been done to any extent by most wholesalers of these items. Housewares were handled on a nonexclusive basis.

By October, 1952, Northeastern had added to its product line Sunbeam and other electric housewares, Geneva kitchens, and James dishwashers. It had discontinued handling Grand gas ranges, National sewing machines, and Toastmaster automatic water heaters.

55. THE O. A. SUTTON CORPORATION (C).[1] Selling to the Government

In the summer of 1950 the vice president in charge of sales of The O. A. Sutton Corporation was planning to organize the company's marketing activities so as to be able to solicit government business to utilize excess plant capacity.

Sutton distributors had been urging the company to introduce a line of air conditioning units under the Vornado name. In view of this customer pressure and the potential profitability of such a line, executives had decided to manufacture these units. An addition of 40,000 sq. ft. to the factory was constructed in order to have sufficient plant capacity. At the time the company planned to start manufacture, however, the Korean crisis had already begun and some doubt existed as to the company's ability to proceed as planned. Consequently, it was decided that the Sutton corporation should solicit government business in order to have definite or prospective orders available should government regulation prohibit the manufacture of air conditioning units. Executives intended to solicit such business in addition to the normal civilian business using such defense orders to utilize the excess plant capacity. The company did not plan voluntarily to curtail its civilian production until forced to do so by government regulations. In the beginning of 1951 Sutton wished to obtain government contracts equal to 40% of

[1] See The O. A. Sutton Corporation (A), p. 159, for introduction and background.

its civilian business to prevent a chaotic situation should civilian manufacture suddenly be stopped, and to utilize the air conditioning plant since the full-scale introduction plans had been postponed indefinitely.

Management desired orders of a type which would permit the rapid expansion of defense production when and if civilian production should be curtailed. To accomplish this, wide contacts with government agencies and prime contractors would be necessary. Thus, the executives planned to look for items with some current production which in the event of total mobilization would increase substantially. It would be desirable to find items which would represent annual purchases of $2,000,000 to $3,000,000 with $5,000,000 or more after total mobilization. The item that the company would like to manufacture for the government should be expendable, not durable military equipment. Preferably it should have high priority, or at least give the company the type of priority for materials which it needed. If possible, the item should lead to production expansion and provide facilities and equipment which could be used after the emergency in the Vornado line. Furthermore, executives hoped for a type of production which would permit the Sutton corporation to secure certificates of necessity and allow it to write off equipment and facilities, on an accelerated basis over a 5-year period instead of the longer period normally permissible under current tax laws.

In listing the specific type of items desired, the company mentioned three contracts to the salesmen: (1) metalworking and assembly; (2) some electronic manufacture and assembly; and (3) certain electric equipment and assembly. Since the company desired a balanced use of its productive facilities, an item requiring metalworking and welding, and if possible deep drawing, painting and metal finishing, as well as assembly would be suitable.

The first step in embarking upon the task of securing defense orders was to compile facts and figures about the company into a 40-page lithographed brochure for presentation to prospective buyers. A brief history of the company, its present organization, a description of the plant and grounds, a detailed description of the plant layout illustrating each of the company's manufacturing departments, a classified list of factory equipment, introduction of the company officers, description of the company's civilian production line, and, finally, a list of the company's suppliers and distributors was included. Toward the end of this brochure was a section listing the type of military contracts that the company desired as follows:

> The O. A. Sutton Corporation, with its extensive facilities and "know-how," will as heretofore allocate all or any part of its facilities for military contract as the need arises.
>
> Our facilities are best suited for the manufacture of an item requiring all or any of the following operations:
>
> Metalworking
>
> Stamping and Blanking

Welding
Sheet Metal Fabrication
Deep Drawing Operations
Painting and Metal Finishing
Assembly
Small Electronic Parts Manufacture and Assembly
Electrical Equipment as follows:
Switches
Small Transformers
Reactor Coils
Solenoids
Small Motors

"Accomplishing the impossible" by virtue of the loyalty and "know-how" of O. A. Sutton corporation personnel in adapting their varied skills to a particular problem is one of our greatest prides.

Modern equipment throughout the factory, centralized location and with through coast-to-coast rail, truck and air freight service, outstanding labor relations plus the ability to produce in quantity, efficiently and at low cost, qualify The O. A. Sutton Corporation for rapid conversion to prime military production.

This brochure was to introduce the company to the various purchasing and procurement officers in government agencies, since the company first had to be established as an "acceptable bidder" before it could be placed upon a list of bidders of a government agency. The second step was for the vice president in charge of sales to familiarize himself with government procurement and to collect booklets and pamphlets from various agencies, in order to find out what was bought by government agencies, the centers for procurement as well as procedures for bidding and award of contracts.

To facilitate the administration of defense business, the vice president in charge of sales created a new office in his department. A former salesman of the company who had been in charge of the company's motor and coil sales was appointed manager of defense contracts. In the fall of 1950 the copper shortage forced the company to stop selling motors and coils to outside users and hence he was available for this opening. In his staff position with no authority over salesmen his primary concern was assisting the sales manager in handling bids and proposals and in expediting the corporation's defense business generally.

In addition to the procurement booklets issued by the military agencies, The O. A. Sutton Corporation also obtained a list of the 100 prime contractors who had provided approximately 70% of all government needs during World War II. It was the intention of the management to pursue this list for subcontract work rather than use the Department of Commerce synopsis of contract awards. Each of these 100 firms was sent a copy of the company's brochure and salesmen were charged with the responsibility of following

up this mailing. The company also obtained from the Department of Commerce a daily synopsis which showed new items for which the government was asking bids and a weekly report of contracting awards. Salesmen were given marked copies of three pamphlets entitled "Selling to the Navy," "How to Sell to the Army," and "A Guide to Selling to the Air Force." Letters were sent from the factory to the respective procurement agencies requesting that the company be placed on bidders' mailing lists for selected items. In the case of the Air Force, a detailed list covering each of the classes marked was requested, and upon its receipt, executives determined which items were of interest.

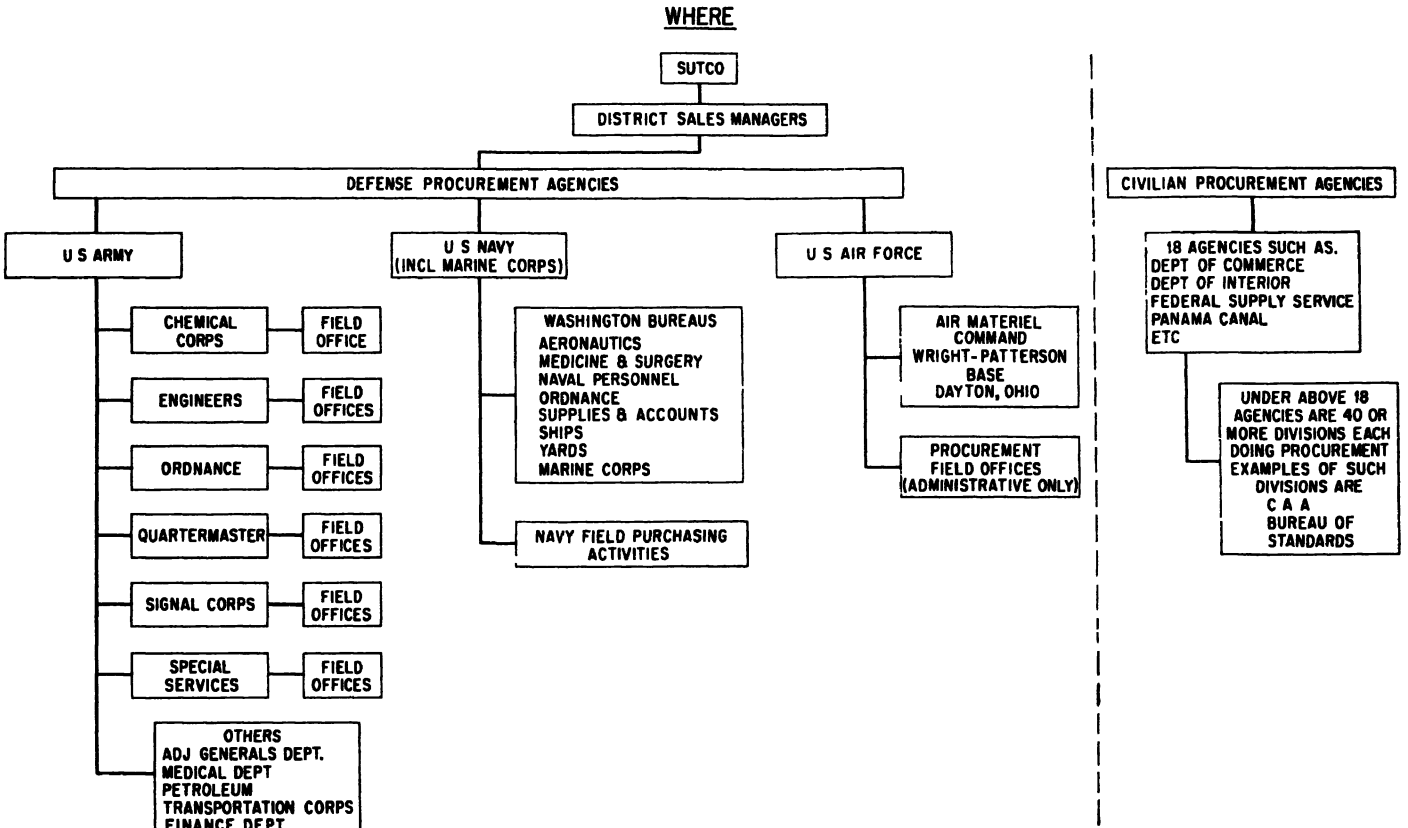
In September, 1950, a sales meeting of the company's nine representatives took place and the men were instructed to call on government agencies. To facilitate this, the selling of parts to distributors was henceforth to be made by mail, eliminating the need for salesmen to check distributors' inventories and to make calls merely to sell parts. They were told to spend no more than 25% of their time soliciting for defense orders as a general rule. The 100 prime contractors had been broken down and each salesman given a list to solicit. The salesmen were to decide whether or not these prime contractors should be visited regularly and reported their findings to the company. Each salesman was supplied with an organization chart illustrating where the various government agencies bought (Exhibit 1) and were instructed to concentrate upon military procurement offices since it was believed that increased orders of high priority types would be more likely to be military in origin in the event of total mobilization.

In an effort to screen the various procurement offices, the vice president in charge of sales segregated activities within each man's territory and classified them into two categories: (a) major procurement centers, or those that the company believed were major; and (b) minor procurement centers, or those that the company believed were minor. Relatively unimportant agencies were completely excluded from this list.

After the initial call on the various agencies in his territory, the salesman was requested to determine whether the agency represented a source for the type of contracts the company desired. If it did, he was to continue with repeated calls; if his investigation disclosed otherwise, he was to inform the home office of his findings. The salesmen were required to report on every purchasing location on the lists assigned to him.

In the course of the sales meeting the vice president in charge of sales attempted to tell the salesmen all he knew about government buying. The person in charge of each defense agency would, in all probability, be a commissioned officer of the Armed Services, with one or more civilian assistants who supervised the entire civilian personnel reporting directly to him. Items in each procurement office were separated into various groups, each headed by one or more officers who, in turn, had civilian buyers reporting to them.

Exhibit 1. The O. A. Sutton Corporation



While it was considered necessary and desirable to get acquainted with the military personnel, it was recognized that the civilian personnel was equally important since they were of a more permanent character while the military personnel was subject to changes of duty assignments from time to time.

The salesmen were instructed to keep in mind the following objectives in making contacts: (1) To find items being currently procured which the company could make and which would satisfy the company's requirements. On these items the salesmen were to obtain forms, specifications, drawings, and sales data. (2) A salesman was to locate the one or two items of greatest interest for the long term.

The sales manager also explained to the salesman that there were basically two types of specifications, namely, government and nongovernment. The former included specifications of the Army, Navy, Air Force, joint Army-Navy, Bureau of Standards, plus six other types. Over 50 nongovernment specifications currently used in a government procurement included the SAE, NEMA, ASME, and ATSM.

The government separated items purchased into two categories, namely, classified and nonclassified. At that time classified items were generally purchased by negotiations, whereas government regulations required sealed bids on all others wherever possible, awards being made to the lowest responsible bidder. While company executives believed that the contracts desired would be the negotiated variety, the sales manager pointed out that the company could become acquainted and establish contacts best by diligently locating any items coming up for bid which met the company's requirements and facilities.

The sales manager then described the procurement procedure and organization of each of the three Armed Services. The Army was broken down into technical and service units. For purposes of defense procurement, the company considered only those service units in which executives believed the company might be interested: chemical corps, corps of engineers, ordnance, quartermaster corps, and signal corps. Whereas others were shown on the organization chart given to the salesmen, it was believed they did not represent sources of contracts for Sutton requirements. Administration of Navy procurement was divided among various bureaus with headquarters in Washington, each bureau supervising some functional part of the Navy and its operations. In addition to the Washington bureaus, there were a number of Navy field activities, many of which engaged actively in procurement, and generally under some particular bureau or bureaus in Washington.

At that time procurement of the Air Force was centralized at Wright-Patterson Air Force Base at Dayton, Ohio, all buying being done from this one office. Although field procurement offices were located in some of the larger cities, they were there for administrative purposes only, being charged

with the responsibility of supervising and administering contracts let by the Air Force.

According to the vice president in charge of sales, the reason for this type of approach to the problem of selling to the government was lack of presently existing channels for defense business as, during World War II, the company had been a relatively small subcontractor of aircraft parts. Moreover, he believed that contacts with the various field offices of government agencies might be useful in the future. Furthermore, there was a large and lucrative market for fans in government offices and government institutions which, up to 1951, had not been developed to any appreciable extent. By calling upon the various government field offices, the vice president in charge of sales believed the men could establish a basis for the eventual sale of considerable numbers of Vornados. Furthermore, by soliciting major prime contractors, the company might be some help in getting suitable orders.

The executives of the corporation also did a considerable amount of traveling themselves, calling upon their past contacts with World War II customers. Although one of the salesmen had Washington, D.C., in his territory, the company did not employ the services of a special Washington representative.

In the spring of 1951 executives of The O. A. Sutton Corporation were anxious to get out of the sealed bid category and to be put on the list for negotiated transactions. Earlier the company had made several sealed bids but had not been successful as the low bidder; executives had concluded that if the company seriously wanted government contracts a considerable price reduction was essential. The vice president in charge of sales believed the reason the company had not been low bidder was that it was not a pressing matter to get defense contracts and, therefore, its bids included conservative cost estimates and a high profit margin. The company then began submitting sealed bids with a considerably lower profit margin, as it would be satisfied if the type of contract in prospect were the kind really desired. Consequently, the company varied its profit margin on bids depending upon the desirability of the contract in prospect.

As a hedge against total mobilization—as contrasted with utilization merely of excess capacity—the company took advantage of the industrial mobilization program of the Department of Defense which was directly responsible to the Munitions Board. Under this program each service estimated its requirements for a period of 2 years following full mobilization (M-Day) and then sought civilian suppliers with whom to plan for these requirements. This was a strictly voluntary arrangement without any obligation on the part of the government or the contractor. Under this program each plant of each contractor was assigned to one branch of one service. The O. A. Sutton Corporation looked over the types of items purchased by various activities and finally decided to try to secure assignment to Army Ordnance

at its St. Louis procurement depot. It therefore obtained the ASPPO (Armed Services Procurement Planning Office) assignment to Ordnance. Ordnance in St. Louis then supplied a list of items which it would need in the event of M-Day, and the Sutton corporation was asked to inform them which items it could supply. An advantage of obtaining an ASPPO was that the company automatically was put on the list of acceptable bidders by the St. Louis Ordnance office. Having an ASPPO, however, did not in any way prevent the company from going to other services to seek defense contracts. ASPPO merely served as a quick potential source from which to obtain government orders in the event M-Day arrived and the government ordered the immediate cessation of civilian appliance manufacture.

CASES IN BRIEF

1. Atlantic and Western Airways, Inc., was one of several airlines offering transcontinental passenger service in the United States. Although all these lines competed for cross-country traffic, many of them flew different routes serving cities in northern, central, or southern regions. During recent years both competition and traffic had increased very considerably. Mass transportation methods had been introduced by lowering fares on special flights while efforts were continued to maintain high class or luxury passenger service which had been the basis for the growth of the industry since its inception. In order to maintain and increase traffic, Atlantic and Western maintained a sales-force. The selling activities of the eastern region were carried on mainly by groups of representatives operating from the regional office. One of the central points of the program was the creation of a demand for the "air travel plan." This plan, officially named the Universal Air Travel Plan, was organized by agreement among 18 participating airlines. A business firm that wished to subscribe established a special credit account by depositing $425 with any one of these airlines which would subsequently serve as a revolving fund against which company travelers could purchase air transportation. Cards would then be provided to all officers, directors, or employees to whom a company might wish to extend this travel privilege. After each trip, an advice copy of the signed ticket receipt was sent to the subscriber and at the end of the month the company was billed for all transportation used including flights on airlines other than Atlantic and Western. The advantages of the plan lay not only in the charge account but also in conveniences connected with making reservations and purchasing tickets. Atlantic and Western representatives also placed a good deal of emphasis on selling tourist and pleasure travel in addition to business purposes.

Other sales promotional efforts were concentrated specifically in the company's local and national advertising program and the work of its publicity department. Advertising was done through magazines, distribution of maps, timetables, calendars, and direct mail although newspapers carried the bulk of all advertising copy, featuring round-trip or "destinational" advertising as well as the various airline services.

What other elements should the airlines' sales program include?

2. A manufacturer of a food processing machine sold nationally directly to food processors through sales representatives. None of these representatives had showrooms or carried local warehouse stocks. Units were appraised at $2,550 f.o.b. Seattle. The sales representative was given a commission of 25% of the list price. Out of this commission, he paid his travel and

other expenses, supervised the installation of the machine, and instructed the user in its operation and care. Up to this time, the advertising which the company had done had been almost entirely by direct mail. Modest advertisements had been carried in a few trade papers. Since development of sales had been slow in spite of the fact that the company believed the product to be very good, the president wondered what steps to take to increase sales.

3. The Heath Food Company was engaged in the manufacture of branded products of which Stockton baking powder was an important item. Its annual sales approximated $2,000,000, averaging 700,000 cases of 24 cans each. The United States was divided into districts in which a salesforce solicited wholesale groceries, chains, restaurants, hotels, and institutions. Over 350,000 retail outlets distributed the company's products. Approximately $350,000 was spent each year by the Heath company for various types of advertising to maintain the well-established consumer preference for Stockton baking powder. Since annual consumption of baking powder varied from less than 1 pound per family in urban areas to almost 7½ pounds per family in rural districts, much of the advertising was directed to farm families. The combined circulation of these publications reached almost 71,000,000. A coast-to-coast half-hour radio program was also conducted weekly during 1937.

In January, 1938, the sales manager of the Heath Food Company was trying to decide whether for the baking powder product it would be desirable to subscribe at an annual cost of $40,000 to the A. C. Nielsen survey. This survey would provide a bimonthly report of sales data pertaining to the competitive standing of the Stockton brand which would aid in the selection of profitable advertising and merchandising methods. These data, from 2,000 selected retail stores located in 700 cities, were carefully chosen from the census to represent a true sample or cross section of the buying habits of the country. The sample was intended to provide a correct proportioning by territories, cities, store types, store sizes, classes of neighborhood, and other factors. The basic information obtained in the stores was analyzed to produce facts as to sales to consumers, purchases by retailers, retail inventories, stock turn, distribution, per cent out of stock, wholesale and retail price, retail gross profit, direct against wholesale purchases, average order size, dealer push such as displays and specials, and total sales. These figures were then broken down into brands, territories, cities, store sizes, and size of package.

Does such a survey enable the sales manager of the Heath Food Company to make better decisions as to sales programs and sales promotion? Is it worth its cost to him?

4. A company which has been engaged for years in the manufacture of metal articles recently perfected a special device to facilitate lubrication, which was applicable both to automobiles and to industrial machinery. It seemed clear to the company that there were two distinct markets to be approached. The first was the automobile market, consisting of automobile manufacturers, who might furnish the product as standard equipment on the cars which they sold to dealers and consumers; and second, automobile dealers, garages, and retailers of automobile accessories, who might sell the lubricating parts for attachment to cars on which they were not already provided. The second general market was the industrial field.

What types of sales programs should have been considered by the company in developing the markets for this product?

5. To what extent are experimental methods applicable to the choice of selling methods in the development of a selling program?

6. A manufacturer of business machines is planning the introduction of a new low-price adding machine to be announced simultaneously on billboards, in newspapers, trade papers and general magazines, and in branch offices in the near future.

What problems of scheduling are involved?

7. Is careful planning of sales programs in advance consistent with the need for quick change as new products and new market conditions emerge during the year?

8. A coffee company which has attained satisfactory distribution of its blends of tea and coffee in six states surrounding its plant is considering the introduction of its product in a metropolitan city with a population of about 1,500,000, located approximately 250 miles from the headquarters of the company and outside the territory already covered.

Should the company undertake to secure gradual distribution, using one or two salesmen to get retail grocers to introduce it with only a small amount of advertising, or should the company undertake intensive distribution with a considerably larger temporary force of salesmen and a large campaign in the metropolitan press?

9. Should the margin between manufacturing cost and customary selling price in the market for similar products influence the character of the selling program for a new product?

10. Are extensive selling programs in the public interest?

11. What protection is available to the manufacturer who develops a novel selling program and who wishes to retain exclusive control over its use by others?

B. PERSONAL SELLING IN THE SALES PROGRAM

The oldest form of selling effort is that form of personal selling in which the goods were sold on a bulk basis; that is, the actual goods offered for sale were delivered immediately from the stock displayed to the buyer. Historically, personal solicitation or personal selling has been the prime form of selling effort and continues to be the most important constituent of most selling programs of manufacturers and wholesalers, whatever type of product they sell. However, that personal selling is used in the proper proportion in its relation to advertising is seriously to be doubted. The average sales manager has no definite means of knowing the results of the particular combination of advertising and personal selling which he decides upon in planning his annual program, except from his own personal experience and the experience of other companies whose problems vary considerably from his own.

The sales manager is affected more or less by the practice of competitors. If an important manufacturer in a particular competitive trade decides to advertise extensively, his competitors may feel compelled to advertise likewise, even though the campaign of periodical advertising and personal selling which the first manufacturer adopted was by no means the wisest. The impossibility of measuring accurately the results of advertising and of personal salesmanship gives advertising men the opportunity to claim for their means of selling results which may be justified but often are not. Again, the custom of the trade may be that of using salesmen almost exclusively, and the tendency is, therefore, for the sales manager to hire a group of salesmen to do the selling work without serious consideration of the fact that each salesman in a force might find his work considerably more effective if his efforts were supplemented by other selling methods.

Personal solicitation or personal selling of the type most commonly used is illustrated by the work of "regular" wholesale salesmen, who may or may not carry a few samples and who make their calls upon wholesalers, retailers, or large consumers at stated intervals, and by the work of the retail salesperson, who customarily waits for the customer to come to him. The wholesale salesman frequently carries samples with him; the retail salesperson usually sells the goods which he displays to the customer from stock at hand. Occasionally the retail salesperson sells from samples or from description without other aids. Frequently, however, the wholesale salesman sells on the basis of description.

Personal selling effort may be exerted not only by those in the position of salesmen but also by other members of a business enterprise, particularly by men in executive positions. In addition to the regular type of salesmen, as has been pointed out, special types of salesmen may be entrusted with special duties, such as that of creating good will, performing only a part of the selling process. The numerous arrangements of duties of salesmen result in a vast number of differences between firms in their utilization of personal solicitation. The specification both of the types of personal salesmanship and of the types of effort expected from each salesman must be examined before we are justified in making detailed comparisons of selling programs of different business enterprises.

The growing costs of personal services provide a constant pressure upon the thinking sales executive to utilize personal selling more efficiently, particularly to use no more than is necessary and to use other methods of sales solicitation where they are more economical than personal contact. There can be no doubt that personal selling may be the most aggressive and the most effective selling method in particular circumstances. But there can also be no doubt that costs will compel more judicious use of personal contact in selling programs of the future.

56. ALVIN ELECTRIC COMPANY. Sales Program of an Electrical Wholesaler

The Alvin Electric Company, located in New Haven, Connecticut, acted as selective distributor for several leading manufacturers of electrical equipment. The company did not handle appliances, specializing in products such as motors, power installations, and lighting for factories, for sale to industrial concerns, public utilities, and large electrical contractors. Sales equaling between $1,000,000 and $2,000,000 were made throughout Connecticut and in a small area in southern Massachusetts by a salesforce of nine men. In normal times, Alvin did not handle products for more than two competing manufacturers, but because of the difficulty of getting equipment in 1946, many more suppliers were utilized. The president, Mr. Alvin, felt that, since his concern was handling standard lines on a selective though nonexclusive basis,

it had little to offer its customers except better service than competitors could give.

About 3,000 different items were handled on which the gross profit varied from 5% to 30% and the net profit from 1% to 5 %. The company attempted to limit its line to items which permitted at least 5% gross profit, though this was not always possible because some regular customers demanded a full line of products including items on which a smaller profit was made. Alvin kept a record of the material cost but did not distribute other costs to individual items. The company figured that to be profitable a line should show a turnover six times a year. Popular and fast-moving products were usually low-profit ones. Sales were divided about equally between shipments made direct from the supplier to the customer and orders filled from stock.

Mr. Alvin considered personal contacts of great importance in promoting sales of the company's products. One method of improving relations was to arrange a meeting at the Alvin office with about 50 customers at which refreshments were served and matters of mutual interest discussed. Advertising effort was confined to direct-mail pieces, particularly monthly mailing of blotters featuring attractive girls. Announcement of new items was made by sending descriptions to a carefully selected mailing list.

Mr. Alvin believed from a sales point of view that relations with the firm's suppliers were important. Two or three times a month, therefore, either he or his sales manager conferred with suppliers' representatives. The salesmen, too, were encouraged to work closely and become friendly with the suppliers' salesmen, who, if favorably disposed toward Alvin, could make many sales for the company.

Since the job of selling Alvin equipment was one requiring technical knowledge, men with engineering degrees or background were preferred as salesmen; likewise the president did not care to hire men who had sold for competing organizations. No use was made of psychological tests in selecting men, since the president preferred to rely on his own judgment. When a young man was chosen, unless he had had specific engineering training, he started by doing stock work in the warehouse. After familiarizing himself with the stock, he was put to work on perpetual inventory records. Following this work, he progressed to counter sales in the office, then to a job as an inside salesman, filling telephone orders. Finally, he would work as a part-time salesman in another man's territory until given a territory of his own. This training process usually lasted about a year.

Salesmen were paid a drawing account which allowed them certain minimum salaries and expenses. After this minimum had been reached, the salesmen were paid 21% of the gross profit earned on all sales. The idea behind this method of compensation was to put salesmen in business for themselves. If they made money, Alvin made money. No daily reports were

required from salesmen, but sales meetings were held every Saturday. In addition to this group meeting, the president tried to spend some time with each salesman. The basic method of control over the salesmen was through a ledger containing the names of all customers together with the estimated sales for the year and the profit on these sales. Turnover in the salesforce was low, most men being lost to the company when they decided to go into business for themselves.

Since the total area in which Alvin sold was small, there was some overlapping of territories. When this happened, customer accounts were assigned to the different salesmen. Annually the salesmen and the sales manager considered each customer and estimated sales and profits for the coming months. These estimates were kept in a ledger in the sales office, and entries were made as sales took place. By glancing at this ledger, it was possible for the sales manager and the salesmen to see at any time what profits had been made from a customer, and how the actual amount compared with the estimates. Since the president of Alvin had been working in Connecticut for about 40 years, most potential customers were known to the company. Although there were some exceptions, usually only concerns with over 100 employees represented such business. In 1946, it was especially important to examine each concern carefully since many customers were planning to make products that were new to them. Each product had to be investigated, since Alvin sold many items which were potentially component parts of such products. Most of the salesmen specialized in some particular phase of the business; for example, a salesman might specialize in lighting installations. When a sales manager and a salesman reviewed the latter's accounts at the beginning of the year, they selected the principal customers and in each case tried to decide on which of the high-margin products, in which the salesman specialized, selling effort should be emphasized.

In addition to regular day-to-day contact with industry and business, the company scrutinized all building reports. The architects rarely decided upon questions of electrical installation, leaving that to a few engineers, upon whom calls were made regularly.

According to the president, it was customary for an electrical wholesaler to obtain 80% of his business from 20% of his customers. Mr. Alvin tried to induce his salesmen to broaden the base of operations so that 70% of the business would come from 30% of the customers.

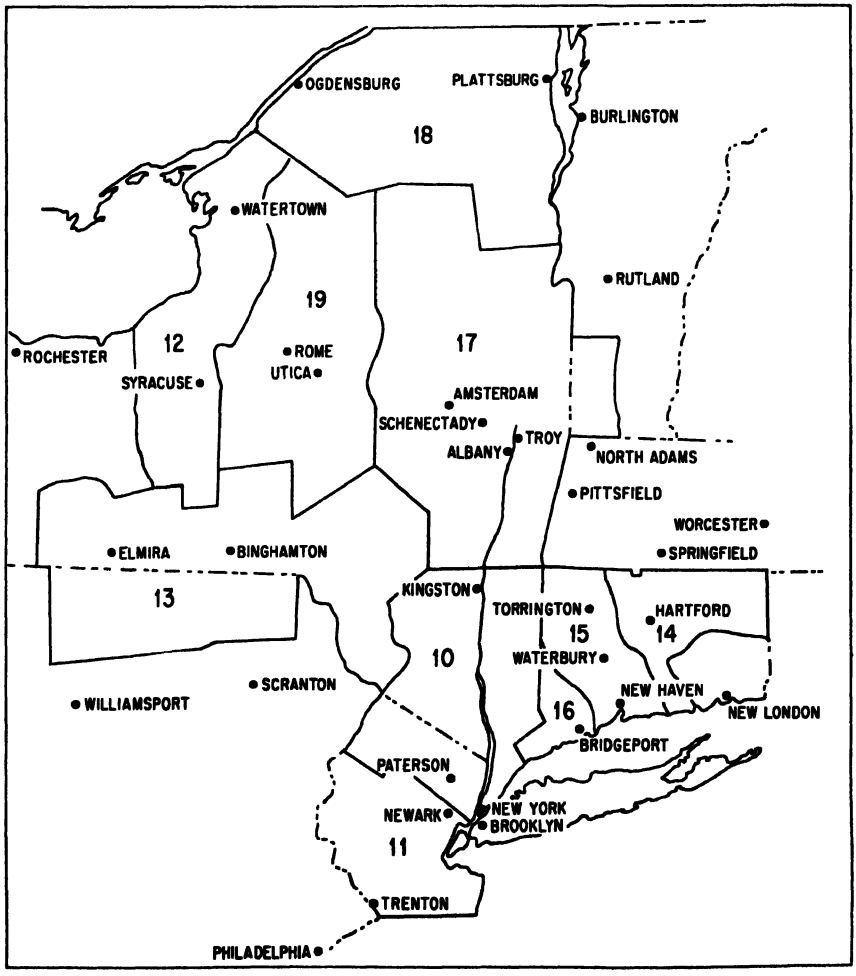
57. PALFREY COMPANY (A). Measuring Man Power Requirements

The Palfrey Company, located in Cleveland, Ohio, sold several household products throughout the United States by means of a salesforce of 200 which solicited wholesalers and retailers. The salesforce was divided into 4 regions, 20 districts, and 184 control areas. In some districts, each salesman was ex-

clusively responsible for specific areas while in others some overlapping occurred, with several salesmen operating in the same area. One of the most important problems facing the sales division in 1946 was that of sales coverage, the determination of the number and kind of salesmen the company needed. Early in 1946, therefore, the marketing research director, in collaboration with the field sales manager, made a study of the company's coverage in the New York district (Exhibit 1).

In approaching the problem the marketing research director believed that emphasis should be placed on the task to be accomplished, the number and types of customers, and the amount of time required to cover them. He was convinced that recognition should be given to important differences between

Exhibit 1. PALFREY COMPANY



areas in terms of number and types of accounts, average volume per account, amount of time required to deliver any given sales volume, amount of travel time required, and any other physical factors. Before proceeding the marketing research director and field sales manager made certain preliminary assumptions:

1. *Sales responsibility should be undivided.* Every district manager should review his own territorial assignments with this point in mind.
2. *The sales supervisor has a supervisory responsibility.* Each district manager who has under him a sales supervisor working one or more areas alone should recognize the temporary nature of the arrangement.
3. *The "task method" of determining sales needs is preferable.* How many salesmen needed depends on how much work there is to do in any given area.
4. *Given a work plan, a salesman's job is measurable.* Starting from a work plan, the amount of time any given area will require can be estimated.
5. *Our objective is evolution, not revolution.* If any improvements in sales coverage develop out of the analysis of this problem, they should be put into effect as soon as possible, and not deferred until the solution is finally reached.
6. *The analysis should be specific and impersonal.* Where the names of individuals are used for convenience in identifying specific sales areas, no criticism is implied and none should be inferred. The entire analysis should be entirely objective and impersonal in its approach.

New York, as the most important district from the standpoint of present and potential sales volume, was selected as a pattern for the first sales coverage analysis. Four teams of salesmen operated in the New York district, each under a sales supervisor. Metropolitan New York, area 10, by far the largest in the country on the basis of volume, was covered by two teams. The first team under Supervisor Hill included four salesmen who covered Long Island, including Queens and Brooklyn counties, and the area above New York City along the Hudson, including Westchester, Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Ulster counties. The second team, with four salesmen under Supervisor Britt, covered Manhattan and Bronx county, Richmond county, and Bergen, Passaic, Hudson, and Sussex counties in New Jersey. Supervisor Ellis and three salesmen covered areas 11, 12, and 13. Area 11 comprised Newark and its neighboring territory; area 12 Syracuse and vicinity; and area 13 Elmira and Binghamton and surrounding towns. Supervisor Malloy supervised four salesmen and was responsible for the remainder of the district's marketing areas. These were area 14 with Hartford as the chief city covered by salesman Adams; area 15 New Haven and near-by towns covered by salesman Jones; area 16 with its center at Bridgeport covered by salesman Harris. Area 17 included Amsterdam, Troy, Schenectady, and Albany; area 18 included Plattsburg and Ogdensburg; and 19 included Utica. Salesman Coleman covered area 19 and assisted Mr.

Malloy in areas 17 and 18, although Malloy covered most of area 17 himself.

The marketing research director next obtained figures for yield per man per week in each area by taking sales for the first quarter of 1946 for each area, dividing by 13, the number of weeks in a quarter, and then by the number of men including the sales supervisor involved in selling in such territories. On this basis the area covered by the Britt team of five men returned $6,010 per week for each man; the area covered by the Hill team of five men returned $5,148 per man per week; the Ellis team produced $4,074 per man per week; and the Malloy team showed sales yield of $3,213 per man per week. Breaking down the Malloy area still further, the area covered by salesman Adams yielded $5,430 per week; that covered by salesman Jones returned $3,409 per week. The three areas, 17, 18, and 19, covered by Mr. Malloy and Mr. Coleman produced $2,459 per week, and the territory covered by salesman Harris returned $2,316 per week.

The marketing research director also calculated that if areas 17, 18, and 19 had been covered by a single salesman during the same period with the same success scored by the two men who shared the three territories, the yield would have been $4,918 per week. It was recognized that the variations in sales yield were an indication of important differences existing between sales territories. If the variations were exclusively the result of the variations in the number and size of customers and each salesman had approximately the same work load, then they might represent sound sales planning. On the other hand, if the variations existed because sales assignments had not been based on measurement to any considerable extent, then they suggested opportunities for correcting any inequality in sales coverage. The sales yield ratio provided only a guide in the sales coverage analysis. The figures for yield of the various territories suggested that, because of the low yield in area 16, there might not be sufficient potential volume to occupy the salesman full time, and the low average from areas 17, 18, and 19 raised the question as to whether a single salesman could handle the three territories. If not, would a revision in assignments which would reduce the combination to a unit which one salesman could handle be a possibility? Before the amount of time any territory would require could be determined, it was necessary to develop a work plan, an agreement on the frequency with which salesmen should call on given accounts and the amount of turnover selling.[1]

In establishing specifications for a sales job, it seemed desirable to set up specifications which would be at the level of the average salesman. This would permit the star salesman to demonstrate his superiority; it would permit the average salesman to perform at an acceptable level; but it would be difficult of attainment for the man who was definitely below par in sales ability. Such standards would tend to result in higher productivity per man

[1] Sales obtained by salesmen from retailers which were turned over to the wholesaler.

which, in turn, could lead to a combination of increased sales compensation and lower selling cost ratios.

A breakdown of the salesman's job showed that most of his time was occupied by the following tasks: (1) making calls on wholesalers and buying officers of chain stores handling Palfrey products; (2) doing turnover selling for wholesalers who handled Palfrey products and in some cases for chain stores; (3) selling to large, direct-buying customers, such as department stores; (4) arranging for and building displays in key super markets

Although important variations in the need for turnover selling from district to district existed, the field sales manager and marketing research director after discussion with regional and district managers decided that on the average a Palfrey salesman should resell no more than 15% of the purchases of wholesalers by taking turnover orders. District and regional managers generally agreed that a salesman could regularly turn in a minimum of 15 calls a day. Although this figure was regarded as low for the metropolitan salesmen and perhaps high for some country territories, it was decided to use the 15-calls-a-day figure for the purposes of the study. After discussion of the question with several district and regional managers, it was further determined that the average salesman should write a minimum of $250 per day in turnover business, plus $500 in direct business and that it should take no longer to close a direct order than a turnover order. It was also the judgment of the field sales managers and several district managers that a minimum of six wholesale calls per day was a fair average for a salesman calling on wholesalers exclusively. In determining the frequency of calls, it was recognized that there would be variation among wholesalers and between large important accounts and small accounts; but as an average, one call per account every six weeks was adopted as a fair yardstick except for smaller wholesalers who would require only half as many calls. Calls on major department stores required about as much time as calls on wholesalers so that six calls a day was considered reasonable. Large department stores should be visited about once a month, while smaller department stores required only about three calls every six months.

The number of floor displays for super markets varied in different territories. A salesman should be able to erect about five displays a day. A salesman worked 5 days a week, 26 weeks to the period. With one week for vacation and another week for holidays and office meetings, each period contained 120 working days.

Using the standards which he had set up, the marketing research director then applied them to areas 14, 15, and 16. Exhibit 2 shows sales in market areas 14, 15, and 16 for 1944, 1945, and the first quarter of 1946. Exhibits 3, 4, and 5 show key account summaries for market areas 14, 15, and 16.[2]

[2] Eighty-five per cent of the company's business was obtained from about 8,000 retail outlets known as key accounts.

Exhibit 2. PALFREY COMPANY. Sales in Market Areas 14, 15, and 16 for 1944, 1945, and First Quarter of 1946

	1944	1945	1946
Area 14:			
1st quarter	$16,814.83	$118,871 69	$70,599 66
2d quarter	23,470.11	14,721.69	
1st 6 months	$40,284 94	$133,593.38	
3d quarter	$13,788.11	$ 29,662 04	
4th quarter	22,314.13	35,060.70	
2d 6 months	$36,102.24	$ 64,722 74	
Calendar year	76,387.18	198,316.12	
Area 15:			
1st quarter	$18,799 25	$ 70,930.40	$44,322.05
2d quarter	24,136 05	14,509.90	
1st 6 months	$42,935 30	$ 85,440.30	
3d quarter	$14,751.79	$ 22,229.16	
4th quarter	24,119 89	22,175 09	
2d 6 months	$38,871.68	$ 44,404.25	
Calendar year	81,806.98	129,844.55	
Area 16:			
1st quarter	$10,407 15	$ 44,332 35	$30,109.00
2d quarter	11,035 73	5,815 18	
1st 6 months	$21,442.88	$ 50,147 53	
3d quarter	$ 5,841 48	$ 7,291.84	
4th quarter	10,753.18	15,148 13	
2d 6 months	$16,594.66	$ 22,439 97	
Calendar year	38 037 54	72,587 50	

Exhibit 3. PALFREY COMPANY. Key Account Summary for Market Area #14

Type of customer	2d half 1945		1st quarter 1946	
	No. of customers	Total purchases	No. of customers	Total purchases
Wholesale accounts:				
Wholesale grocers	6	$ 2,328 19	5	$ 3,032.58
Wholesale drug	1	295.46	1	241.04
Wholesale wood-paper	6	10,660.79	6	10,296.94
Wholesale misc.	7	5,283.00	11	2,584.70
	20	$18,567.44	23	$16,155.26
Direct accounts:				
Department stores	11	$ 7,331.14	12	$ 4,000.61
Ind. variety stores	5	524.40	11	1,382.03
Chain stores:				
Grocery chains	1	$31,643.44	1	$40,720.95
Variety chains	4	3,773.59	5	1,351.35
Department chains	2	195.04	1	26.33
Area total	43	$62,035.05	53	$63,636.53
Area total volume		$64,722.74		$70,599.66
Per cent of area volume in this list of key accounts		95.8%		90.1%

Exhibit 4. PALFREY COMPANY. Key Account Summary for Market Area #15

Type of customer	2d half—1945		1st quarter—1946	
	No. of customers	Total purchases	No. of customers	Total purchases
Wholesale accounts:				
Wholesale grocers	6	$10,611 55	10	$ 6,669 76
Wholesale drug	5	2,597 55	6	1,775 73
Wholesale wood-paper	3	3,983 00	3	6,338 05
Wholesale misc.	7	991 94	18	6,142 71
	21	$18,184.04	37	$20,926 25
Direct accounts:				
Department stores	7	$ 1,218 41	8	$ 1,467 84
Ind. variety stores	6	437 94	17	1,560 91
Chain stores:				
Grocery chains	3	$ 9,631.98	3	$ 7,023.40
Variety chains	5	4,664.01	7	2,353.55
Department chains			1	208.78
Area total	42	$34,136 38	73	$33,540 73
Area total volume		$44,404 25		$44,322.05
Per cent of area volume in this list of key accounts		76.9%		75 7%

Exhibit 5. PALFREY COMPANY. Key Account Summary for Market Area #16

Type of customer	2d half—1945		1st quarter 1946	
	No. of customers	Total purchases	No. of customers	Total purchases
Wholesale accounts:				
Wholesale grocers	4	$ 1,978.85	8	$ 4,951 26
Wholesale drug	1	857 80	1	170.96
Wholesale wood-paper	3	2,816.76	3	1,922.80
Wholesale misc.	7	5,385 36	11	8,199 11
	15	$11,038 77	23	$15,244.13
Direct accounts:				
Department stores	3	$ 976.54	5	$ 1,451.14
Ind. variety stores	1	242.25	10	1,364.19
Chain stores:				
Grocery chains	1	$ 235.08	1	$ 151.96
Variety chains	7	2,624.58	7	1,506.23
Department chains	1	87.98	1	58.99
Area total	28	$15,205.20	47	$19,776.64
Area total volume		$22,439.97		$30,109.00
Per cent of area volume in this list of key accounts		67.8%		65.7%

For the following reasons, the marketing research director felt that the first quarter 1946 volume sold to key accounts was likely to be a better reflection of a normal volume level than the second half of 1945:

1. In all three areas, pool-car shipments boosted first-quarter 1945 volume far above 1944 levels. These shipments for the most part were made in March, reaching retail shelves in April and May.
2. In all three areas, there was a natural reaction to the large first-quarter volume in the second quarter, 1945, which was below 1944 sales for the same period.
3. In all three areas, first-half volume in 1945 was far above 1944.
4. In all three areas, despite the large first-half increases, sales volume was higher in the last half of 1945 than in the same period of 1944.
5. In all three areas, the volume in the first quarter of 1946 was far below the 1945 level. This was reasonable since there were few pool-car shipments in the first quarter of that year.

CASES IN BRIEF

1. The Orleans Company, with an annual sales volume of over $10,000,000, manufactured a complete line of infants' and children's underwear and sleeping garments. The company's products were sold by a salesforce of 40 men direct to department stores, dry goods stores, and clothing shops throughout the United States. The company had recently introduced a new line of children's clothing and it was proposed that a graduate nurse be employed to introduce the product. The new line was a distinct innovation and improvement over other styles on the market because of new ideas of construction of the garment and a new fabric which was designed for greater comfort of the wearer. Since store clerks were unfamiliar with the new line, company-employed nurses could demonstrate to customers how easily babies could be dressed in the new garment and how much more comfortable, health-protecting, and long-wearing the new styles were. It was proposed that the company's seven division managers select the demonstrators with the aid of physicians. To be chosen, nurses had to have a good reputation, possess tact and a pleasing personality with some ability to sell. In deciding upon the stores in which demonstrators should be placed, the sales manager considered three primary factors: a store's past sales record, its potential sales, and its location in the business area. The required past or potential sales figures were not predetermined amounts but varied to a large extent with the size of a store, its past relations with the company, and the willingness of its executives to cooperate. An important part of the demonstrator's work was to spend a part of each day calling on well-known pediatricians and obstetricians whose recommendations to mothers on infants' wear were considered by the company to be an important factor. Each nurse was supplied with a kit containing samples of the line and two or three calls were made daily. The cost of a demonstrator would probably be about $150 per week, if not more.

What factors should the sales manager consider in deciding whether or not to employ such demonstrators?

2. The Purdy Company, located in St. Louis, manufactured a line of medium-price men's suits, topcoats, overcoats, and sportswear, which was sold through 50 Purdy-controlled retail establishments and through independent retail stores in selected cities throughout the country. In 1946, officers of the company, anticipating

the end of the wartime era of allocation of merchandise and the beginning of a period when successful operation would be directly related to skillful merchandising, were considering possible changes and improvements in its selling methods.

The sales organization consisted of a vice president and director of sales, a market research manager, a manager of advertising and public relations, and 40 senior and junior salesmen. Operation of the Purdy retail stores was the responsibility of the merchandiser for controlled stores, and he reported to the secretary-treasurer. The vice president and director of sales was one of several top officers who met each week to discuss policies for these controlled establishments as well as general policies of independent distribution.

Since Purdy salesmen were expected to be competent at selling and also capable of advising customers on any phase of operation of a retail store, a long training period was essential. Often the company selected young college graduates for its training program. The trainee spent several years acquiring an understanding of every part of the business, a considerable portion of the time being devoted to work as a salesman in a retail store. Before obtaining a territory of his own, he worked for two or more years as a junior salesman under one or more senior salesmen. After completing his sales training, which might conceivably last for 10 to 15 years, he became a senior salesman with an annual income ranging from a modest figure up to perhaps $15,000 or $20,000.

The salesmen received a regressive commission on the total sales in their territory, against which drawing accounts were paid monthly. In every salesman's territory, a few large accounts provided sufficient volume so that the lower rate of commission applied, permitting the company to obtain its business at extremely low sales cost. At the same time, the salesmen were able to make good incomes. As a matter of fact, the company was able to operate on sales plus advertising expense which was little more than the sales expense of many of its competitors, exclusive of advertising. Salesmen lived in St. Louis and made two 12-week trips to their territories each year, one in the spring to sell the fall line, and one in the fall to sell the spring line. Since many buyers came to St. Louis on buying trips, active selling continued throughout the year.

The company was one of the first in the industry to undertake national advertising By 1946, main reliance was placed on the media of magazines, radio advertising having been tried and discontinued in previous years. While space was used regularly in *Collier's, The Saturday Evening Post, Esquire, American Legion,* and from time to time in *Look, Life,* and others, the first two were regarded as the backbone of the magazine advertising program. During the war and after, the company continued large-scale magazine advertising, even though unable to supply sufficient merchandise to meet demands. It was careful to use general institutional type advertisements in an effort to keep the name before the public, without stimulating immediate buying impulses. In periods of poor business, the company followed a policy of increasing rather than decreasing its advertising effort. Although Purdy used no newspaper space, it encouraged its customers to do so. The company made them no allowances to defray the cost, but it did supply mats free to customers who wished to use them. The company worked through an advertising agency but employed its own artists to illustrate the copy. For example, one of its well-known artists lived in California and prepared sketches from photographs of the company's products. About four times a year, the company sent copies of suggested advertisements to all its customers and undertook to supply such mats as were desired for newspaper space.

Besides advertising, extensive use was made of direct-mail material as well as signs and displays. Regular budgets were prepared by the advertising manager for the material that would be used during each period. Special folders, booklets, and descriptive material of all sorts were sent

out to the customers, both on a regular schedule and for special holidays and events. Orders were taken from the retailer for supplies to mail to his customers. As part of the effort to make distributors conscious that the present sellers' market would not last indefinitely, direct-mail material was also sent out. In addition, other booklets were prepared from time to time, such as one for the returning serviceman indicating how he should go about building up a civilian wardrobe. In this type of booklet, the product name was not emphasized, but an attempt was made to be genuinely helpful. Another booklet of this nature was prepared by the vice president in charge of sales in response to many requests for information from servicemen as to how to go about getting into the retail men's clothing business. This booklet was a complete short guide, indicating the capital required, the qualifications needed, the budget that should be set up for a small store, and related topics. The market research manager had prepared a book covering the whole field of manufacturing and marketing men's clothing, which the company planned to publish and distribute to salesmen in its retail stores.

The company executives believed in working closely with customers in training the salesmen in their retail stores. In addition to the work carried on directly by the director of sales and the salesmen, Purdy was considering the establishment of a more comprehensive program in the near future. In 1938, the company had prepared an educational film designed to help in training retail salesmen at a cost of approximately $40,000. The film showed how to sell men's clothes and how the garments were constructed. Very little direct advertising matter had been incorporated in the film, since it was intended for educational purposes. It had proved extremely popular and had been showing continuously ever since it had been released. Within a few months, 40 additional prints had been purchased to meet the demands for bookings. The film had been shown to many groups for which it had not been originally intended; for example, it had been exhibited in the public schools in St. Louis for 18 months. In 1946, the company was planning to make another film, this time in color. An effort would be made to make it as interesting as the previous one, and while the company name and products would not be emphasized, the publicity value of the film would not be overlooked in its construction.

3. The Mirror Glass Company made a high grade line of household products, particularly tableware. Its plant employed some 400 people and the company traveled 21 men throughout the United States, one of them specializing on a few industrial products which the company made. The major problem of the company was that of increasing sales. The company was selling through department stores, china and gift shops, and similar outlets. The sales manager believed a solution might lie in planning to sell fine glassware in place settings similar to the plan used by the sterling silver manufacturers which was the basis of a company expanding in that market.

Was it probable that the company might at reasonable cost develop acceptance of the idea of place settings?

What type of sales program would be appropriate?

4. The Pike Chemical Company, incorporated in 1901, manufactured and sold widely diversified lines of products including heavy chemicals, intermediates, plastics, medicinals and fine chemicals, insecticides, wood preservatives, solvents, and special synthetics. Its domestic and foreign organization distributed its products throughout the world.

In the spring of 1951, the general sales manager of the organic division was confronted with the problem of the policy of product allocation which currently was based upon shipments during the first six months of 1950. He was concerned about the fairness of this policy to new and growing companies which, for one reason or another, had not used a particular product or process during the previous

year, and he wondered whether allowances for such firms should be made. Most of the division's business was on a contractual basis and the company had no legal right to accept spot business, but recurrent hardship cases inclined him toward making some exceptions. At the end of January, 1951, the allocation problems became even more serious since it appeared that the company would not be able to supply more than 80% of its quota requirements for the next month due to raw materials shortages and a fuel shortage caused by unusually cold weather.

On certain intermediate products such as phenol the company was its own largest customer. At the beginning of 1951, the sales manager foresaw that at best 70% of the company's annual phenol requirements would be available. Although the company's current policy was to cut its own use of an intermediate to the same degree that it reduced its customers' quotas, the sales manager realized that such action reduced the amount of chemicals available at some lower level of manufacture to an extent which at times exceeded the original percentage reduction. The general sales manager wondered whether, on such intermediate products as phenol, it might be wise for the company not to reduce its own use of the product, selling to outside users only that portion of output which remained after the company's own requirements had been satisfied. Some of the company's competitors had included clauses in their contracts which permitted them to use as much of a product as was needed for their own manufacture, but members of the legal department advised the sales manager that in their opinion such a clause invalidated a contract.

5. How may the types and qualities of personal salesmanship be altered so that they are more suitable to a specific selling task?

6. A manufacturer of medium- and low-price dresses who, through design and other characteristics of his product, had acquired a substantial reputation, depended primarily upon visiting buyers in the New York market for the sale of his goods. In view of the increasing competition in 1953, the company proposed to send men on the road the following spring for the first time.

What factors should be considered in determining the number of men to be utilized for purposes of sales solicitation?

What methods may be used to bring about a desirable degree of coordination between sales correspondence and the work of the salesmen in the field?

7. A representative of a Pacific Coast paint manufacturer selling large quantities of shellac through its central offices visited the Shawsheen Company, an important furniture manufacturer with several factories in various parts of the Far West. Orders of the Shawsheen Company were placed by a central purchasing department on a contract basis but the shipping instructions were given by the local plant to the paint company's home office It was using a native Indian shellac.

A number of years ago the company had developed a machine-made shellac which, compounded under modern conditions and scientific supervision, resulted in a much clearer and more uniform product. Mr. Redwood was assigned the task of introducing it and in the process of running tests in customers' factories and contacts with customers and production men in their own factories had acquired a large fund of practical and technical experience. Meanwhile the paint company continued to improve the quality of the product and finally had a wide range of types to offer for various special uses Prices were slightly higher than for the native variety but, since it represented the difference in impurities between the two, seemed to provide no real obstacle. Mr. Redwood was asked to visit the Shawsheen Company to introduce the superior shellac and a special trip was made to the furniture company's largest plant where its chemical research department was located.

Upon announcing his name to the receptionist with a request to see one of the chemists, Mr. Redwood was referred

to the local purchasing agent, who at once stated that he had just sent instructions to the home office for another delivery of shellac. Curt and seemingly preoccupied, he refused to let Mr. Redwood see the chemist, saying they were too busy, and pointed out that the central purchasing department preferred to negotiate for shellac contracts with the home office of the paint company

Mr. Redwood was not satisfied with the results of his visit and made a second call several weeks later. Upon this occasion, because of the absence of the purchasing agent, he was received cordially by the director of research who recognized the supplier company. Mr. Redwood showed his array of samples and the research director introduced him to two men with whom he spent the afternoon. The chemists wanted several additional samples of different types and said they would send the requests through the usual channels.

Several days later the general sales manager of the paint company was asked to visit the purchasing agent of the Shawsheen Company at the main office where he was told that the company's chemists were not engaged to waste a lot of time on salesmen and that all such negotiations were to be carried on at the main office. The general sales manager could not convince the general purchasing agent of the improved character of the new types because the latter did not have the information or technical knowledge to distinguish between them. Mr. Redwood remarked later: "My superior could not very well tell the general purchasing agent that I called at the local plant in accordance with instructions from the home office; but Shawsheen continues to buy regularly our native shellac. I do not visit their local plants any more. Everybody seems to be happy except myself because I believe they would have been really benefited by buying the superior shellac."

8. In the fall of 1945, the executives of a large tire and rubber company were faced with the prospect of operating well below plant capacity in the immediate postwar years. In view of the rapid expansion of the rubber industry, similar large companies were faced with the same problems because of their expansion during the defense program of World War II. Many approaches to the problem had been considered, some of which involved changes in the company's sales organization, some in sales policy. However, it was the opinion of the manager of the passenger tire sales department that, as one method of utilizing excess capacity, sales volume might be increased by obtaining additional outlets in the less thickly settled areas where the company was not yet represented. Executives realized that, if this course of action were to be taken, they would have to develop methods of finding the most efficient approach to the selection and expansion of company outlets.

What type of sales program would seem to be appropriate for such development?

9. The Binkerd Specialties Company, located in Urbana, Illinois, manufactured a general line of fabricated sheet-metal products which included dairy, ventilating and air-condition equipment, store front constructions, skylights, marquees, tinner's supplies, and radiator enclosures. In the early part of 1951, the executives were convinced that they had reached nearly all the customers for dairy equipment that could be secured with the existing methods of distribution in the area in which the company operated, and they were considering what policy should be adopted in the future with respect to these products. The dairy equipment accounted for approximately 25% of the annual sales volume of about $500,000, distribution of which had been concentrated primarily in a dozen states in the Middle West. The company maintained no salesforce of its own but distributed its equipment through a small number of dairy supply jobbers, dairy cooperatives, and utility companies. The utility companies and the dairy cooperatives sold the products directly to dairymen while supply jobbers reached dairymen usually through dairy supply dealers. The promotional program carried on by the company was not extensive, and

the total annual advertising appropriation was approximately $50,000 divided among farm magazines, catalogues, dairy shows, direct mail, and newspapers.

What should be the company's future policy?

10. A confectionery company whose sales had expanded from less than $1 million to $5 million in the period up to 1950 was experiencing a large decline in its business in high grade package and bulk chocolate and in bonbons, a result attributed to the widespread advice to reduce sugar consumption as a means of lowering weight. It was known also that competitors in the same general price class had on occasion introduced so-called low calorie confectionery.

To what extent could the company meet such a situation with expanded advertising and selling effort?

11. What selling methods are available to a specialty food manufacturer, to a manufacturer of steam turbines, to a manufacturer of highly styled men's clothing?

12. Are selling plans and selling programs of any value to a company engaged in the construction of concrete buildings, most of whose business comes as a result of successful competitive bidding? Where competitive bidding is the practice in the purchase of particular commodities, is personal selling or advertising of any value?

13. The vice president of a gas and electric company had personally experimented with, and, together with a physician, had developed an athlete's-foot remedy. Not wishing to make any investment or to sell it for a small price to a pharmaceutical concern, the owner of the formula engaged in manufacturing on a very small scale and did his selling by direct mail. He had been selling increasing amounts to golf clubs, country clubs, and other athletic clubs.

What methods could be adopted by the vice president to reach what he believed to be the market?

14. How may the sales manager determine the time elements of a sales program? Of a campaign to introduce a new product?

C. ADVERTISING IN THE SELLING PROGRAM

The ultimate purposes of advertising and personal selling are the same—to bring about economic exchanges. It is recognized by students of advertising that it may be impossible, or uneconomic if possible, for the advertiser to attempt the accomplishment of the entire process of effecting the sale without the aid of other forms of selling effort. Occasionally it is possible for a seller to use advertising exclusively, but success is the exception rather than the rule.

The vast majority of advertisers are compelled by economy to combine personal with printed salesmanship, because advertising can perform certain portions of the selling process more economically and effectively than can salesmen, while other portions can be performed by it only with difficulty. Advertising can develop recognition of a product or recognition of a seller of products more economically and more widely than can salesmen. Advertising may go further; it may develop interest in the product as a prospective means of satisfying wants and create interest in the vendor as the source of supply. Nevertheless, advertising alone is generally unsuccessful in developing such recognition and interest to the point of completed transactions. In other words, advertising may furnish a definite starting point as a basis for the work of the salesman but cannot usually complete the task without his aid.

More specifically, the purposes of advertising may be stated as the development of consumer recognition for the product and the development of good will for the selling concern, sometimes through so-called institutional advertising. Through contributions to the selling process, advertising should increase sales, reduce marketing costs, and develop economy in distribution.

In the management of advertising, the problems to be solved relate to the choice of media, the timing of particular advertising effort, and the execution and control of such advertising plans. Production and shipping must be coordinated so that stocks of goods are available on a basis coextensive with the scope of advertising effort. Advertising effort must be coordinated with personal and other selling effort.

In the selection of advertising media, the choice seems to be constantly increasing. The most important form in terms of expenditure is space advertising in radio, magazines, newspapers, and other periodical publications. A number of important classes of advertising media, which may be used alone or in combination with other classes, must also be considered for inclusion in the sales program. Among these are direct-mail advertising in manifold forms—letters, circulars, brochures, leaflets, etc.; outdoor advertising, sometimes called poster advertising; and radio broadcast advertising which has grown by leaps and bounds to become a major element in the programs of many large as well as small enterprises; and finally, the newest, television, which offers relatively unexplored potentialities but which promises to cause further shifts in the sales programs of those enterprises whose experimentation has proved the advertising worth of video advertising. In addition to these direct forms of advertising, we have the numerous intermediate forms of selling effort which are classified as dealer helps and which range from cooperative advertising effort to courses in dealer training or control of dealer activities.

Furthermore, a list of media does not indicate the choice which must be made within each of the groups ranging from the periodical whose readers number millions to the country newspapers with a few hundred subscribers, and from circular letters to elaborate and frequent broadcast programs. In all of these, choice needs to be exercised to select those media which will best fit in with the purposes and plans of the enterprise. Advertising is not a substitute for personal salesmanship in the sense that it can be used instead of personal salesmanship. At times, it aims to perform similar functions, but ordinarily it can serve best as a supplement to personal salesmanship and other means of selling.

The main economic justification for advertising in the long run is the possibility of reducing the cost of goods to the consumer by reduction either of marketing or of other costs. By increasing the volume, it may reduce the cost of production. Whatever program, whether advertising alone or personal selling alone or combinations of methods, can bring about distribution of

goods most economically will survive. But advertising and other sales methods would ultimately take the place of personal salesmanship if it were believed that necessary functions could be performed more economically thereby.

The effective combination of advertising and personal selling used by one company may not be effective for another. The selling plan of an important cereal company includes very little personal solicitation, if any, and a very large amount of advertising. A mail-order house uses direct mail exclusively. On the other hand, retail stores use personal solicitation and advertising, though all the records which are available indicate that personal solicitation, as reflected in the cost of salesforce, is considerably more important than advertising. Many, perhaps a majority of, wholesalers utilize little selling effort other than personal salesmanship. Manufacturers, on the other hand, frequently use advertising, some of them depending upon it very largely as a means of creating consumer and dealer recognition.

Attempts to apply scientific measurement to advertising have been made and are being continued in the effort to answer the questions as to the effectiveness of advertising and its various features and characteristics. The discussions of measurement have hinged largely upon so-called testing. Logically, advertising tests seem to fall into two main groups. The first group consists of predictive tests, or those tests which are made in advance of appearance of advertising to help in forecasting results. The other group of tests is based upon measurement of results, either actual results in terms of coupons, inquiries, or sales results in limited or total areas; or results presumed to be indicative of sales results, such as (1) unaided recall, (2) aided recall tests for magazine, newspaper, or radio advertising, (3) coincidental telephone surveys, (4) mail questionnaires for radio, or (5) readership or listenership counts. Predictive tests for magazine and newspaper advertising include consumer jury tests of proposed advertisements, timed attention-value tests, the application of psychological scoring factors, or opinions of men whose judgment is valued. Experimental campaigns in limited areas, use of coupons, inquiries, and results in limited territories are also used for predictive purposes. If results are interpreted as favorable, extension of the program follows; if not, modification or discontinuance is decided upon.

Not all these tests apply to all principal classes of media, but many of them may be applied to two or more. Nevertheless, all these tests touch only a small part of the total problem of advertising and selling programs. In view of our lack of information, the urgency of careful testing and experimentation cannot be controverted if more rapid progress is to be made in learning fuller and socially more desirable utilization of advertising.

58. OPAL COMPANY. Use of Advertising by a Manufacturer of Printing Presses

The Opal Company, a manufacturer of printing presses, was located in a middle-western state. The company produced presses for general printing

purposes and a more specialized line of presses which printed in two or more colors. These products were sold to all classes of printers by means of a direct salesforce. The company also did a considerable amount of advertising and annually attempted to review the effectiveness of the different copy and media used.

The advertising program followed by the company embraced both direct promotion work with printers who purchased the presses and indirect promotional effort with agencies that used printing of various sorts. Thus the company attempted to encourage advertising firms to use more direct-mail advertising and hoped to enlarge indirectly the market for printing presses. Promotional copy of this sort was placed in *Printers' Ink* and other trade papers which were widely read by advertising men and stressed the advantages accruing from the use of direct-mail advertising. It was believed that it was undesirable to attempt the stimulation of general magazine advertising, for even a large increase in such advertising would not greatly increase the demand for presses, since such advertising was usually run off in great quantities in centralized plants. Direct-mail advertising, on the other hand, was usually printed in smaller quantities at a variety of geographical points and thus necessitated the use of a greater number of presses. Besides stressing the desirability of direct-mail advertising, the company suggested methods for effective use.

In advertising to printers, who were the direct users of the presses, the company was undecided as to the media and the copy approach which would produce the most effective results. At that time, both direct mail and printers' trade papers were being used. An executive of the company stated that attempts had been made to key the trade-paper advertising describing the regular lines of presses, but that the results had been far from satisfactory. It was thought that an advertisement rarely resulted in any immediate sales yet often was an important factor in later sales. In addition to this difficulty, there were certain executives who felt that any type of general advertising was of little value, since the demand for presses was derived from the demand for printing and because the technical features and the performance characteristics could be more effectively presented by the salesmen. The number of printing press manufacturers was few, and printers were well acquainted with the standard designs of machines.

In spite of this feeling, the results of direct-mail advertising in the introduction of new models had been successful, and the head of the company was unwilling to discontinue general advertising until there was definite proof of its ineffectuality. In one instance, a direct-mail campaign introducing a new press resulted in a 10% return in inquiries. This was considered an excellent showing, since the average return on direct-mail advertising was between 1% and 3%. Furthermore, it was believed that the effectiveness of general advertising might be increased through a change in the copy used.

Although most of the more progressive printers were using accurate cost accounting systems, it was felt that many of them did not appreciate the savings which would result by the replacement of old machines with new. Obsolescence was an important factor in printing presses, and it was believed that this replacement market was capable of enlargement. Two proposals were made for stimulating this demand through advertising. The first comprised the presentation of actual performance figures on standard types of work for the different models of presses. A printer might compare these figures with his own results and would realize the desirability of installing new presses. Under the second scheme, an analysis would be made of the savings to be obtained by the replacement expressed in terms of return upon the investment in the new machine. These proposals were criticized on the grounds that (1) performance figures were jealously guarded by printers and (2) any advertising pointing out the return on investment would be likely to benefit the entire printing press industry as much as the Opal Company.

Another suggestion was made that the copy feature the remarkably fine engineering corps in the employ of the company and cite specific instances where this body of men had been able to solve difficult problems in a short time. It was not planned that this advertising would feature any particular machine but would rather be institutional in character.

What action should have been taken?

59. WARFIELD PLYWOOD COMPANY. Planning the Sales Program in Postwar Years

The Warfield Plywood Company began production of Douglas fir plywood in its Lebanon, Oregon, plant in January, 1941. At that time, demands for plywood exceeded the capacity of existing mills to produce, a condition caused in part by the tremendous increase in construction for defense purposes and the postwar housing shortage. The Warfield Plywood Company had no difficulty in disposing of its entire output through established channels. So great was the pressure exerted by buyers that very little individual sales or promotional effort had been necessary up to the fall of 1947.

In addition to plywood, the Warfield company processed "Port Orford" cedar at another mill in Oregon, which had been in operation for several years. This species of cedar was widely used for slats in Venetian blinds and separators in wet batteries, principally because it was straight-grained, easily worked, and highly resistant to decay.

Fir plywood was manufactured by peeling logs into thin veneer-like sheets, and then gluing these sheets together with the grain running at right angles in adjacent layers. In most standard grades, the number of plies varied from three to seven, and the combined thickness of the resulting sheet ranged from

3/16 of an inch to over one inch. Various bonding agents were used, depending upon the purpose for which the product was designed. When the layers were held together by a plastic agent such as phenol or urea formaldehyde, plywood became waterproof and could be immersed for indefinite periods without deteriorating. Animal and casein glues made a bond that would resist moisture for a time; eventually, however, the layers would warp and separate from one another if this bond were used.

The Douglas Fir Plywood Association, the trade organization of producers, had been formed in 1937, and since that time had performed many services for its members. One of the first problems it attacked was lack of standardization of output. Because of this lack, purchasers could not be assured that a particular shipment would perform the work for which it had been bought. Standard grades and markings which were developed as a result of the association's activities were later accepted by the United States Bureau of Standards as the commercial standard applicable to the entire industry. The association maintained a staff of nine inspectors who spent their entire time traveling through the mills, taking random samples of output at unexpected times during the day and night. These men were expert veneer graders and were equipped with thermocouples to determine whether the veneer was at the temperature for gluing. Samples were sent to the central laboratories for shear testing daily. Thereafter, a buyer, knowing the minimum specifications for each grade, could be assured that the plywood he purchased would satisfy his requirements.

Another important activity of the association was the development, testing, and application of new products in its own laboratories. Experimentations with new bonding agents and economical methods for shaping plywood into various forms were carried on continuously. The association frequently was asked to devise products which could be used as substitutes for those using critical materials; for example, in the summer of 1942, effort was devoted to develop oil, gasoline, and other liquid containers which previously had been made of steel. A staff maintained by the association traveled over the country conferring with other research institutions and plywood users and helping them with problems of new applications. Scholarships were established at an agricultural college to create interest and uses for the product among farmers, and each year specific projects were financed at the Forest Products Laboratories in Wisconsin.

Since its founding in 1937, the association had been responsible for a large proportion of all industry advertising, publicity, and trade promotion. Its income was derived from membership fees based on a charge of 35 cents per 1,000 square feet of output. Its total annual income approximated $500,000 and 25% or $125,000 of this was used for advertising purposes. In 1941, it was divided about as follows: trade paper and magazine space, $60,000; publicity, $15,000; and sales promotion, $50,000. Advertisements

were inserted in *Architectural Forum, Time, Railway Age, Fortune, Business Week* and occasionally in *Better Homes & Gardens, Sunset, American Home,* and *The Saturday Evening Post,* and other publications. A publicity department secured coverage of news and novel projects, or applications of the product. Trade promotion included such work as erecting exhibits at conventions and advancing plywood use by obtaining unusual applications, as, for example, in prefabricated houses, railroad freight cars, and boat hulls. Field representatives worked closely with the publicity director to make sure that special product showings were brought to the attention of potential purchasers throughout the country.

During the war, the association, acting in a liaison capacity for the industry, had worked closely with the War Production Board. Rules and regulations were interpreted for members and a Priority Manual showing how shipments and sales of plywood had to be handled was issued for the use of all plywood representatives and distributors.

The Warfield Plywood Company's plant had a rated annual capacity of 144,000,000 square feet based upon output of $\frac{3}{8}$-inch plywood. Actually, however, output varied in terms of square feet because $\frac{5}{8}$-inch and $\frac{7}{8}$-inch sheets required five or seven layers instead of three, and necessitated more cutting and bonding than did the thinner grade. Another factor bearing upon output was the quality of timber used. When poor grades of logs were cut, more piecing was necessary as imperfections and knots were cut out and sound wood inserted in their place. The rate of annual production, therefore, varied from month to month between a low of 110,000,000 and a high of 160,000,000 square feet. At prevailing market prices, monthly deliveries amounted to approximately $1,000,000.

The products of the Lebanon plant were practically all classified as standard grades and bore the association's trade-marks of Ply-Scord, Ply-Form, Ply-Panel, Ply-Base, Ply-Shield, and other special grades. Each name referred to classifications for interior, exterior, moisture-resistant, and moisture-proof uses. During the first three years in which the Warfield Plywood Company had been producing plywood, the demand for standard grades had been so great that no effort had been devoted to development of new or distinctive products. Because of the war, concentration on the common lines was necessary since new equipment, special forms, or machinery were almost impossible to obtain. Moreover, changes in the product would have curtailed the square foot output considerably at a time when the product was urgently needed for war purposes. Several competitive companies that had been producing for several years manufactured distinctive products and sold them under their own trade-mark.

The Warfield Plywood Company sold directly to large purchasers who used plywood in fabricating their product, and to plywood jobbers who in turn sold to lumber yards and smaller industrial users. The company main-

tained a small force of district representatives, or salesmen, located at strategic points throughout the country who were responsible for the sale of plywood in certain designated territories. Arrangements with salesmen varied; a few were employed directly by the company while others were agents and were paid a commission on sales. In all cases, the field man acted as the Warfield Plywood Company's representative in his particular territory and sold exclusively to jobbers who stocked the plywood products. The company urged its jobber customers to keep in close touch with the territory representative and to place orders through him. Jobbers, who upon occasion also purchased direct from mills, sold to lumber dealers and to small fabricators; they performed the functions of maintaining a salesforce, stocking the product, and granting credit to customers. Most competitors secured distribution through the same channels; like the Warfield company they employed very few salesmen to call upon outlets. For the most part, field representatives were used successfully in opening up new outlets, but thereafter they called mainly in response to product inquiries or to aid in solving production difficulties connected with the raw material. During the periods between calls, orders were mailed in by customers and handled by the sales department's staff at the main office in Portland, Oregon.

Some of the company's competitors, the Harbor Plywood Company, United States Plywood Company, and M. & M. Woodworking Company, producers of both distinctive and standard items, had developed strong sales organizations prior to the war. The United States Plywood Company probably exerted the greatest amount of effort because it had developed from a sales organization into an integrated producing and selling concern. It maintained branch warehouses throughout the country with salesmen covering wholesalers, industrial purchasers, contractors, and lumber dealers. Because so many new uses had recently been disclosed, it had been difficult to predict the channels which plywood would find most profitable following the war. Plywood was traditionally a construction material, and therefore lumber yards and dealers were the first important distributors. However, industrial concerns requiring plywood as a raw material in the fabrication of many products opened up possibilities for many changes in methods of reaching ultimate purchasers.

Most of the fir plywood manufacturers in the United States, including the Warfield Plywood Company, belonged to the Douglas Fir Plywood Association. The Warfield company's membership coincided with the beginning of its plywood operations in 1941. In return for its membership fee, the company benefited by the association's activities in product and process research, advertising, and trade promotion since very little work directed toward improving either products or manufacturing processes had been done by the company. In addition, since the company had encountered no difficulty in disposing of its entire output of standard grades, the company had conducted

no individual advertising since entering the industry. The management believed it would be desirable to obtain some distinctive products in the event of a possible decline in demand for standard items. However, individual research, promotion, and advertising on a national scale was extremely expensive, and for the present at least much reliance was placed upon the association for developing new uses and otherwise sustaining the future demand.

60. EMPIRE MILL, INCORPORATED. Promotion of Worsted Yarn Sales

The Empire Mill produced high-grade worsted yarns which were sold in the grey to manufacturers of knitted outerwear, swimming suits, jersey cloth, hosiery, underwear, worsted fabrics, and specialties. The total annual sales varied from year to year but averaged about $3,000,000. The percentage of total production sold to different industries also varied considerably, although the largest single product, women's outerwear, ordinarily absorbed from 30% to 50%. The machinery in the mill was readily shifted to the production of the type of yarn most in demand. The company had 10 salesmen who were paid straight salaries and who called on knitting and weaving mills and yarn jobbers. In some territories where the volume of sales was large, the salesmen sold only Empire yarns, while in other territories additional lines were also sold.

Because the facilities for the production of worsted yarns were far in excess of the current demands for the product, competition in the industry was very keen and the margin of profit usually narrow. Although the margin of profit varied considerably with conditions in the industry, over a period of years it averaged about 5% of sales. The Empire Mill had for several years operated at less than its rated capacity, in spite of the fact that it was one of the most efficient mills in the industry. The executives of course were not satisfied with the sales of Empire yarns and were constantly seeking some plan whereby they could be stimulated.

Empire yarn was produced on the most advanced types of machinery, being spun from raw wool carefully graded to afford uniform quality, and a definite effort was made to maintain this uniformity from year to year. From the point of view of the manufacturer, the company claimed that the yarn had better running qualities than similarly priced competitive yarns because it had fewer imperfections and knots which might cause stoppage of machinery or imperfect garments. It was claimed that the uniformly high quality of the yarn resulted in faster production and lower costs. A few manufacturers who had had considerable experience with Empire yarns were willing to pay a slight premium for them over competing yarns. From the viewpoint of the consumer or retail buyer, the executives realized that it was, in most cases, difficult to recognize a distinct difference in the appearance of finished garments made of Empire yarn or competing yarns. There were, however, exceptions in certain lines of merchandise, jersey cloth for instance, in which

the uniformity of the yarn resulted in a somewhat superior and smoother cloth. It was an open question whether, if other things were equal, a garment made of Empire yarn would wear longer or hold its shape better than a garment made of competing yarn.

Another mill, which had specialized for many years in worsted yarns for the women's outerwear purposes, had, through the maintenance of high quality, built up in the minds of the manufacturers a considerable preference for its yarns although it had never advertised extensively. This preference was not strong enough, however, to lead to the payment of any premium in price except in a few cases. The Empire Mill was desirous of creating a similar reputation for its yarn and was attempting to hasten the process with a continuous advertising campaign. For several years, the mill had advertised Empire yarns, especially to manufacturers, stressing the uniformity and superior running qualities of the yarn and the cooperation in styling available from the technical staff. The copy was of necessity very general since it was intended to appeal to a variety of users of worsted yarns. The small advertising appropriation was used entirely for space in four publications. Once a week, one-eighth page was used in the *Daily News Record*, a daily journal, and one-fourth page in the *Textile World*, a weekly magazine; once a month, one-fourth page was used in *Knitted Outerwear Age* and one-half page in the magazine published by the trade association of leading knitting and weaving concerns. Few yarn manufacturers advertised at all, and no other worsted yarn manufacturer advertised as much as did the Empire Mill. No attempt had been made to measure the effectiveness of the advertising program but the company believed that Empire yarn was becoming better known among manufacturers and to a small extent among retailers.

The advertising agency which handled the account of the Empire Mill proposed that a considerable increase in the advertising appropriation would be one method of expanding sales volume. The current appropriation and schedule, designed to stress to manufacturers all the types of yarn produced in the Empire Mill, were to be continued. In addition, an appropriation of double the size was to be spent on advertising directed primarily to the retailers of women's outerwear. The agency believed that women's outerwear offered the best opportunity for the expansion of yarn sales because it was the largest single outlet for worsted yarns and because the buyers could be easily reached through a single medium, *Women's Wear Daily*. The intention was to influence the retailers to prefer garments made of Empire yarn and ultimately to have them request the manufacturer to use Empire yarn in the garments purchased. The copy used would stress the superiority of Empire yarns, the dependable wearing qualities of garments made of Empire yarn, the repeat business to be secured from satisfied customers, the dependability of the mill, and the uniformity in quality from year to year. Descriptions of some of the interesting manufacturing processes were also

to be prepared as copy. The fact that only virgin wool was used in Empire yarn was to be mentioned, although this was true of practically all other high-grade yarns. In spite of the fact that no strong, rational basis existed for urging retail buyers to prefer garments made of Empire yarns, the agency hoped through repetition and clever choice of copy to build up such a preference. It was pointed out that this had been done in numerous cases with consumer goods. The agency proposed that one full page be used weekly in *Women's Wear Daily*, a leading retail paper reaching both the retail buyers and the manufacturers, and a full page every two weeks in *Style Sources*, a trade style journal also reaching both the retail buyers and the manufacturers.

The agency pointed out the success attained in a similar endeavor by a company which did a large amount of high-grade printing and dyeing work on cotton fabrics. In spite of the fact that the company also worked on a narrow margin for processing the cloth, it had advertised extensively to cutters-up and the retail trade, stressing the superiority of its work. After several years, the company established with retailers and cutters-up a strong preference for goods dyed in its plant. Over half of the goods processed ultimately bore labels supplied by the company, indicating that it had done the dyeing.

In order that the manufacturers and jobbers could readily recognize Empire yarn, each skein was to be tied with a distinctive yellow cord. Those manufacturers and cutters-up who so desired were to be supplied with labels that could be sewed into the garments to indicate that they were made of Empire yarn.

Some of the executives of the company questioned the advisability of undertaking the campaign proposed by the advertising agency because they believed that no considerable number of retail buyers could be influenced merely through trade-paper advertising to request the use of Empire yarns in garments purchased. In women's knitted outerwear, the wearing qualities of the garment were usually not so important as the element of style. Furthermore, the wearing qualities were influenced to a great extent by the weight of the garment, the closeness of the stitch or weave, and the general construction, all of which were independent of the type of yarn used. The company had little hope that the manufacturers would use the labels supplied unless requested to do so by the retailers because the identification of the yarn used restricted the freedom of the manufacturer in his choice of materials. If manufacturers actually began using the labels on garments, the problem of controlling the quality of the garments so labeled would arise. If one general label were used to cover all qualities of Empire yarn and all qualities of garments made therefrom, garments with a wide range of prices would be sold under the one name. The tendency would probably be for manufacturers of cheaper garments to take advantage of the name, and such action would jeopardize any prestige it had attained. Without actual in-

spection of the manufacturing processes, it would be practically impossible for the Empire Mill to be certain that garments bearing the Empire label contained all or any large part of Empire yarn. The suggestion was made that the Empire Mill might license only reputable manufacturers to use the Empire labels on garments which came up to some definite standard of quality. The problem of the control of quality would be difficult in all trades and especially acute in jersey cloth because it passed from the fabric manufacturers to the cutters-up to be made into garments. Throughout these trades, the production units were generally small, competition excessively keen, and it was alleged that many executives had rather elastic views on ethical problems.

Even if a definite preference for Empire yarns was established, the company had little hope of securing any higher price than that secured by competing yarn manufacturers except in a few cases because of the severity of competition both among yarn manufacturers and among the concerns using the yarns. However, if such preference enabled the company to expand its sales volume, some returns would come from a fuller utilization of its plant capacity.

Should the company adopt the plan proposed by the advertising agency? How could the quality of garments bearing the Empire label be controlled?

61. THE O. A. SUTTON CORPORATION (D).[1] Selection of an Advertising Agency

In the late summer of 1950, the vice president in charge of sales of The O. A. Sutton Corporation of Wichita, Kansas, was confronted with the problem of selecting a new advertising agency. Through the first few years of its operation, the company had employed a medium-sized advertising agency in Dallas. In 1947, however, the advertising manager of Sutton's left to become associated with a small local agency in Wichita, Kansas, with the understanding that the Sutton account was to be transferred to this agency and that he was to become the "Vornado" account executive. Within two years, however, the executives of the Sutton corporation came to the conclusion that the quality of service from its new agency was not all that could be expected. The local agency was primarily a printing enterprise and its chief interest appeared to be in the printing aspects of the company's advertising. Because this agency had no other appliance accounts, executives came to the conclusion that it lacked the necessary background for successful promotion of such products. Furthermore, since the agency's other accounts were mostly firms selling in the local market, it was believed the agency was not properly equipped to handle national campaigns.

Sutton executives were convinced that selling electrical appliances required

[1] See The O. A. Sutton Corporation (A), p. 159, for company background.

novel promotional schemes and ideas, and that a continual flow of creative suggestions was necessary to achieve desired sales results. The advertising manager thought that the primary function of an advertising agency was to help supply these new ideas or to develop them in cooperation with company executives. Since most ideas prior to October, 1950, had originated within the company, the local agency did not appear to be fulfilling its primary function.

Most agencies which had experience with appliance merchandise had concluded that sales promotion was the basic element in the sale of these items and that space advertising was merely an adjunct. Although national advertising familiarized the public with a product and gave it prestige and consumer acceptability, the promotional plans including such elements as displays, contests, and local advertisements actually sold the product. Maximum sales, however, could not be achieved without the proper coordination of personal selling, advertising, and promotion. Since the Sutton corporation's product, electric fans, was bought by the consumer almost entirely during a brief eight-weeks' season, this coordination was thought to be particularly important. The executives of the Sutton corporation expected the advertising agency to contribute ideas in planning each campaign; after it had been agreed upon, the agency's function was to prepare copy and supply the necessary literature, promotional displays and advertisements comprising the campaign as well as to assist in the coordination and execution itself.

The O. A. Sutton Corporation's advertising budget for 1951 was in the six-figure bracket and included media advertising in consumer and trade journals, cooperative dealer advertising, and promotional material and literature.[2] Executives recognized that this advertising program did not constitute a large account to most agencies, since at the normal agency commission rate of 15% on commissionable items it would yield little more than the salary of a good account executive.

The vice president in charge of sales of The O. A. Sutton Corporation believed that it would be necessary to choose a Chicago agency since no large agency had offices in Wichita. Although there were several national agencies with offices in Oklahoma City, St. Louis, or Omaha, closer cooperation could not be achieved with these agencies any more than with agencies located in Chicago. Moreover, Chicago had the advantage of being a major commercial center, and it was unnecessary, therefore, to look as far as New York.

Sutton executives were not certain how frequently contact between the agency and the company would be necessary, and what services they could

[2] Under the cooperative advertising plan, the company bore 25% of the cost, the distributor 25%, and the dealer 50%; mats and other items were supplied by the company.

rightfully expect. Therefore, the advertising manager planned to go to Chicago in order to acquaint himself with agencies and their services, thereby determining whether a change was actually imperative. During the summer of 1950, he visited several agencies that had in the past solicited the company's business. The first was the F. E. Cothran Company,[3] one of the five largest agencies in the United States. The advertising manager felt that this agency was more interested in the national aspects of a program than the promotional end, and therefore he was not favorably inclined. Another reason that no serious consideration was given this firm was the fact that one of their accounts was a manufacturer of air conditioning units, a product the Sutton corporation planned to introduce in the near future.

The second agency was Leathers, Inc., a relatively new agency with approximately $4,500,000 of billings. This agency seemed very anxious to get the account, and had even promised to formulate a program for Vornado, at no cost to Sutton, in order to demonstrate what it could accomplish. The only condition for this presentation was a promise that a change in agency was actually going to occur.

Next the advertising manager visited the John Marcus agency, which was never seriously considered since all its operations were conducted from New York. The Busher and Busher Company had no appliance account and a widely known automobile-polishing product was its principal account in Chicago. The advertising manager then visited the J. H. Seville agency which had among its accounts two important appliance manufacturers. This agency expressed an interest not only in the national advertising and trade journal publications but in coordinating and working out its entire advertising and sales promotion program as well. The last agency visited was James Kent, with approximately $1,250,000 annual billings. Kent pointed out that an account of Vornado's size would get only mediocre attention and service. The advertising manager felt this agency did not have an ability to supply creative ideas comparable to the other agencies visited. On his return trip, the advertising manager stopped in Kansas City to discuss with a local agency the preparation of a television short which Wichita agency was not equipped to handle. This agency composed a script and made plans which were submitted to Sutton for approval. Later the agency found that, for technical reasons, changes were required in the script, and the new version was televised without notifying the company. Executives of Sutton believed that they could not conduct business on this basis and this agency received no further consideration. Upon his return to his office, the advertising manager submitted a report to the vice president in charge of sales and the president, outlining his impressions of the various agencies visited (Exhibit 1).

[3] The names of all agencies, their accounts, and personnel are fictitious.

Exhibit 1. THE O. A. SUTTON CORPORATION. Interoffice Communication

TO: Vice President in Charge of Sales
SUBJECT: Chicago Trip Summary

DATE: July 27, 1950
COPIES TO: President

During the period July 19-20-21 in Chicago the following advertising agencies and promotional organizations were approached:

F. E. Cothran Company	Busher and Busher Co.
Leathers, Inc.	J. H. Seville
Marcus and Associates, Inc.	James Kent Co.

F. E. Cothran Company This organization, one of the five largest agencies in the U.S., maintains numerous branch offices, the closest of which to Wichita is Chicago. All major advertising strategy for a client, however, is formulated by a 19-man board in their main office. They utilize no account executives as such but rather have an account representative and his assistant who act primarily as liaison personnel between the client and the agency. Included among their current clients in appliances are three important manufacturers. All creative work through the final art work stage is done in Philadelphia where daily contact is maintained between there and Chicago. They are not greatly interested in any phase of our operations or a client's operations beyond that of assisting in the formulation of the theme of national and trade journal advertising to be used, working out that advertising, including the selection of media and its placement. They will, however, at the request of the client, handle incidentals such as literature and publicity. Costs involved in contacts which they would make in Wichita for any purpose relating to the agency-client relationship would be at the expense of the agency. It was stated that before they could concretely advise us as to an advertising program to be followed a necessary requirement would be for from 10 to 15 people from their organization to come to Wichita to confer with Sutton management for a period of from 2 to 5 days, at which time they would want to be thoroughly briefed in all phases of our operation. This group would include representatives of their management, their idea and creative staff, their art director, their copy chief, publicity chief, merchandising director, etc. After this initial conference they would return to the main cities and, after a thorough study of our operations, objectives and problems, formulate their recommendations for our over-all advertising program. They currently have available in their files research which is kept up to date daily regarding advertising run by all types of manufacturers in a large, representative number of national publications. A tab card showing the manner in which this information is accumulated is attached. Because of their size and the scope of their operations a great deal of research is continually conducted and would be available to us as a client at no additional charge. Any research which we would instigate or approve on their recommendation pertinent only to Vornado naturally would be charged for at a predetermined rate, depending on the amount of research involved.

Leathers, Inc. This organization is just a little over 3 years old, headed by a group of executives, all of whom have had former and in most cases long experience in various categories with a number of advertising agencies. With respect to our operation, Mr. Breakstone, vice president, formerly with several appliance manufacturers in advertising capacities, would undoubtedly be the account executive for our accounts. He would work in conjunction with Mr. Brandon, vice president in charge of merchandising, who has had considerable experience with a number of national publications. Mr. Leathers, president, appears to be the motivating influence throughout the whole organization. They now have several appliance accounts. In comparing the type of advertising which they have submitted to the publications for various of their accounts, it appears to be some of the most eye-catching, hard-hitting advertising of any seen during this trip While they were most agreeable to presenting what had been accomplished as a result of advertising programs laid down by them in their current plans, Mr. Leathers was quite determined that the value of their agency to our organization should not be determined on the basis of what their formulated advertising had done for one of these other accounts. He stated that given 30 days preferably, or as little as two weeks if necessary, and the assurance from our organization that we were seriously considering a change and were interested in a new agency, they would formulate an advertising program for Vornado. This agency is interested in an account not only from the standpoint of the space alone, but from the standpoint of the complete over-all merchandising program including promotional literature, publicity, national trade journal ads distributor and dealer promotions, and everything relative to the sales promotion and advertising phase of our operation. The program which they would present to us complete with layouts of ads, literature, sales promotions, etc., would be the complete program as they would envision it for our product. Considerable expense

Exhibit 1. The O. A. Sutton Corporation. Interoffice Communication (*Continued*)

would be involved in the preparation of this program, all of which would be borne by them if we did not choose to select them as our agency; we would incur no responsibilities during this phase of the operation. Programs worked out for their appliance accounts were very complete and quite effective. This is strictly a Chicago agency employing approximately 60 people and all phases of the operation are handled from the Chicago office. Upon my return to Wichita Saturday I received a telephone call from Mr. Leathers in which he desired to come to Wichita with Mr Brandon and spend a day at the factory learning more about our operations. This was tabled until a later date.

Marcus and Associates, Inc. This organization, with main offices in New York City, operates a branch in Chicago, with the one important appliance account as the basis for the establishment of their Chicago office. This account is currently the only account handled by the Chicago branch and is the only appliance account handled by the agency. The Chicago staff is headed by Mr I. .D. Flowers. Very little time was spent here because of the nature of their operations which were being conducted solely from New York, and because of their inexperience in the appliance field.

Busher and Busher. Mr. J. L. Cummins, for 20 years executive vice president of an auto-polish manufacturing company and supposedly the man who achieved the present position for the product, is vice president and general manager. They have no appliance accounts at present. This is a Chicago agency of which the auto-polish is one of their principal accounts and did not appear to be particularly that which would be beneficial to Vornado.

J. H. Seville. This agency bills annually approximately $4½ million and has among its accounts two large appliance manufacturers. Here again all operations are conducted in Chicago and competent staffs are maintained in all the various phases of activity: art, copy, media selection, publicity, research, etc It was indicated that with the size of our account as outlined, incidental services such as publicity, the preparation of our literature, promotional pieces, etc., would normally be done as part of the regular agency commission, but were it necessary, for example, to have outside work done on a catalog page such as photography, that would naturally be billed to us extra at their exact cost. Those operations that could be performed within the agency itself by agency personnel would be accomplished by them as a service to the client. Publicity would fall in this category. With respect to charges accruing as a result of trips to Wichita, their best judgment at this initial meeting was that the size of our account would entitle us to approximately 4 trips a year at their expense. The creative talent and ideas from this organization would emanate from approximately 6 individuals who make up the planning board of the organization. This agency will not overwhelm one with its enthusiasm or exuberance, but appears to be quite calculating and serious minded and would indicate that considerable thought would be given to the formulation of a program before it was launched Some of their recommendations with respect to research and quite inexpensive tests on some particular phase of activity appear to be very sound. They state that they have never lost an account. Here again they are interested not only in the national advertising and trade journal publications, but in coordinating and working out with us our entire advertising and sales promotion program.

James Kent. An organization of approximately 14 people with an annual billing of approximately $1¼ million. They have one big appliance account. Here again, this smaller agency is anxious to do a complete merchandising and promotional job for an account and wants the account on that basis rather than that of space only. The complete, detailed job they have accomplished for x-y-z rugs is very outstanding and an excellent selling presentation. However, it appears that the greater part of the creative ideas emanating from this agency would be the responsibility of and would come from Mr. Kent himself since he is the only account executive. Their production manager and art director are men with a great background of advertising experience. Mr. Kent, formerly an account executive with one of the very large agencies, maintains that an account of our size in a large agency would get only mediocre attention and service and would be handled by only a segment of that agency; that his organization, although small, is modeled exactly like one of the smaller, completely integrated segments of the large agency and that he is interested in only the best accounts and only in the number of accounts that can be adequately serviced by the organization that he currently has. It did not appear that the wealth of information or that the storehouse of creative ideas would be available from this agency that it would be possible to obtain from one of the others contacted. The complete merchandising programs formulated for their clients, however, were excellent.

Summary—Advertising Agencies. From the surveys of the above agencies it would appear that our best location would be in a medium-sized agency, one in which our account would offer sufficient revenue to be of great enough value to command the entire facilities of the

Exhibit 1. The O. A. Sutton Corporation. Interoffice Communication (*Continued*)

agency. A medium-sized agency should offer a wide variety of the various services which it would be well for us to have available as a source of information and as a means of possible use in the formulation of advertising program. It would appear also that, not having the internal staff in our organization to permit the correct handling of related services such as publicity, research and promotion, we could well benefit from an agency operation that could offer these services to us. This we could not find in a large agency.

While it is still too early to make concrete recommendations, it was felt that both Leathers, Inc., and J. H. Seville are well worth while giving further consideration.

Advertising Manager

At this time, executives concluded that a change was essential. Consequently, in order to familiarize himself to an even greater extent with the agency question, the advertising manager talked to the corresponding executives of Bendix, Admiral, the head of the advertising department of Chicago University, editors of two leading electrical appliance trade journals as well as to the editor of *Advertising Age,* and asked them to recommend a few agencies suitable for Vornado. Each suggested the Franklin H. Gitter agency which had a minimum billing requirement of $750,000 per account and probably would not be interested in Sutton. However, the advertising manager believed that it might be worth while to talk to this firm in any case.

Word that the company was planning to change its agency spread, and the company soon received numerous personal solicitations, one being from representatives of Hargrove, Inc. Several other agencies wrote to Sutton, and thus when the advertising manager was leaving in October on his second trip, the field had been surveyed with reasonable care. In Chicago, he planned to call upon the Crouse and Cromwell agency which had corresponded with Sutton, J. H. Seville, Hargrove, Inc., and Leathers, Inc., to enable him in making a final recommendation upon his return. First of all, however, he visited the Franklin H. Gitter agency which stated, as was expected, that it was not interested in the Sutton account. Gitter executives stressed, moreover, that no Chicago agency would do the required job since the volume of Sutton billings would be too small to allow an agency to realize a full profit. Furthermore, since most of the large agencies had more important accounts, second-rate personnel and service would be assigned to Sutton. Gitter executives continued that most agencies would make numerous promises to get an account, but it would be a mistake to count upon their being completely fulfilled once the account had been obtained.

At the Crouse and Cromwell agency the advertising manager talked to several executives. Although reasonably well impressed by the agency's appearance, he was rather suspicious of the fact that the agency had been in business for a period of over ten years and still enjoyed only $1,500,000 annual billings. The J. H. Seville agency was then visited, but in discussing the

1951 plans with them, it recommended practically everything that the company had done in the past. Furthermore, the advertising manager was not favorably impressed with the man proposed as account executive. Next, he visited Hargrove, Inc.—a large 4 A agency.[4] The advertising manager was favorably impressed that this agency would do a good job for Sutton. Last on his list was Leathers, Inc., believed by the advertising manager to be the best suited to Sutton of all the Chicago agencies. It was, therefore, suggested to Leathers, and quickly accepted, that during the week of October 13, representatives come to Wichita and present Leathers' program and recommendations for Vornado's 1951 promotional campaign. The advertising manager also visited the Jensen agency and upon entering the executive vice president's office found him typing copy. Upon inquiring as to the nature of the account on which this executive was working, he learned it was a local bus company. The advertising manager was not favorably impressed with the way the executive vice president was spending his time, and therefore gave no further consideration to this agency. Upon returning to Wichita, he submitted to the vice president in charge of sales and to the president a report describing his activities and his findings (Exhibit 2).

After the advertising manager's first trip to Chicago, a representative of a new agency in Wichita made a call at the company's office. Since by this time the executives had decided to interest themselves only in Chicago agencies, this new agency representative was discouraged by the vice president in charge of sales. However, on several occasions he requested that his agency be allowed to compete with the Chicago agencies. On behalf of his agency he asked for permission to do market research at the agency's expense and to formulate a promotional program for the company to demonstrate the agency's ability. Executives gave him no encouragement for several weeks, but the representative continued to make calls, talking to the president and to several vice presidents. Finally, the executives agreed to permit this new agency to do research and to give a presentation of the Vornado 1951 sales program in competition with the Chicago agencies.

This Wichita agency, the Mumser Company, was a small local concern with no previous appliance experience and approximately $250,000 annual billings. All its clients were local enterprises, not one of which was distributing nationally. Its personnel consisted of four men and all printing, art work, and other mechanical aspects of the business were subcontracted to free lances. Executives of Sutton believed that Vornado should have the finest talent available and it appeared to them that they might be more satisfied with top free-lance talent than with the second-rate talent that they might receive from a large advertising agency. Mumser impressed the com-

[4] A member of the American Association of Advertising Agencies, a trade organization consisting of approximately 200 of the leading agencies in the United States.

Exhibit 2. The O. A. Sutton Corporation. Interoffice Communication

TO: Vice President in Charge of Sales
SUBJECT: Final Analysis Advertising Survey—Chicago

DATE: October 9, 1950
COPIES TO: President

The following four agencies were talked with in detail, all of whom have been approached previously with the exception of Crouse and Cromwell, and each was given an opportunity to make any specific recommendations they wished with respect to Vornado.

Crouse and Cromwell. Talked with the assistant to the president, and the art director. Bill Crouse, president, age 33, Bill Jackson and Fred Thompson, the other three managing members of this organization, were attending the hardware show in New York.

This is a small agency operation with an annual billing of approximately $1½ million and operates with an account as a team rather than on an account executive basis. Apparently, they have been quite successful in their merchandising and advertising operations with Jones Vacuum Cleaners. In the period of the last four years, Jones Vacuum Cleaners sales have increased from $2 to 10 million annually. Jones's current budget on vacuum cleaners is annually $250,000. Purportedly, Jones had a product but no basic ideas as to how it should be merchandised. The merchandising and selling plans were developed in their entirety by the Crouse and Cromwell agency.

With each of the three merchandising accounts discussed they have used what they call the blue book program, which is a complete and elaborate loose leaf binder in which all sales promotion material is placed. It is a permanent book for use by key buyers in the various distributing organizations handling the above products. This is an idea which we may wish to give some thought to in our program.

The assistant to the president is without question an excellent salesman and while the agency, from their record of accomplishments with others, might do an excellent job for us, they have no good answer for their having been in business for a period of over ten years and still enjoying only a million and a half volume. With the exception of these three accounts listed above they have fifteen or twenty additional ones obviously quite small and all centered in Chicago and no accounts which require anything other than infrequent preparation of ads.

J. H. Seville. It was obvious that this organization had spent considerable time in digging out our past operations. Their presentation was centered around recommendations for merchandising and advertising Vornado specifically and embraced practically 100% exactly those things which we have been doing the last three or four years. Fred King, a very fine gentleman, is apparently a good, solid thinker and quite capable; however, his big program at present is centered around a television account. Jack Adams, whom they envision as account executive for Vornado, in my opinion would operate more as a messenger boy between agency and client than as a deep thinker with respect to our account.

Their presentation consisted of outlining, in their opinion, our five major objectives:

1. Sell more fans to present dealers.
2. Secure new dealers.
3. Make Vornado the outstanding line of fans normally handled by a dealer.
4. Enlarge training aids at the dealer level.
5. Retain our ratio of men buyers and materially increase our ratio of women buyers whereby we would be able to double our present volume.

Specifically, their recommendations with respect to the above were:

1a. Use dealer sales kits which would be given free to the dealers with their fan purchases. (This is exactly what we have been doing for the last two years.)

2b. It was recommended that we secure from each of our distributors a list of 25 dealers who currently do not handle Vornado and who would be good Vornado prospects. An aggressive factory mailing program should be instituted to lay the groundwork for sales calls by our own representatives and distributor sales personnel. This is an idea which we may quite possibly wish to use.

3c. First, they recommended a display similar to our cowgirl and second, they strongly recommended that a "Facts" tag be attached to each fan at the time it is placed in the carton to assist in selling a customer in the absence of a dealer salesman.

4d. Two recommendations for training aids: 1. Smoke or scented smoke which could be dispensed from a can similar to a DDT spray can in order to enlarge upon our smoke test. 2. An air gage gimmick which either the dealer or prospective customer could use in relating the performance characteristics of Vornado against competitive type fans. They demonstrated with a small "miles-per-hour" gage put out as a premium by Post cereals. The original purpose for its use was as a bicycle speed indicator.

5e. Their research shows that, in the fan industry as a whole, fans are purchased 70% by women and 30% by men, and that Vornados are purchased 40% by women and 60% by men.

Exhibit 2. THE O. A. SUTTON CORPORATION. Interoffice Communication (*Continued*)

Other points recommended were enlargement of our market by use of a year-round selling campaign with Vornado's winter use as the off-season theme; this to be tested in a limited number of selected markets first to test the advisability of a continued program on a national basis.

They also point out that their 27 years' experience in selecting media has made them experts on this subject and to "separate the wool from the chaff" to give the greatest possible coverage at the least possible cost.

Agency has demonstrated initiative and willingness to work in developing present analysis and presentation on Vornado. Underlying feeling exists, however, that they might in time require prodding, that they are very nice fellows but their thinking may not keep up with the pace, they might be content to "live within a budget" with no positive thinking that perhaps a $50 overexpenditure might bring an additional $100 profit.

Hargrove, Inc. Frank Miller, 29 years old, is their prospect as account executive for Vornado. Miller has had experience working with Keenan and as senior account executive on Northern Dishwashers. Evidently as account executive for Franklin Roofing Materials he has done a very outstanding job. Miller, young, ambitious, appears to be quite capable. I was assured that Miller would be free to spend 80% of his time on our account and that he would have first call on the top flight production people in the agency at any time that he would require them. Miller, as an account executive, would probably be all right.

They are interested in Vornado from a long-range standpoint, feeling that it is an account that offers a good risk from the standpoint of growth in the future. This agency, one of the larger ones, has as one of their primary objectives a long-range expansion program in the southwest part of the United States. This accounts for their 15-year-old office in St. Louis and offices recently opened within the last five years in Dallas and New Orleans. They use this southwest objective as a selling point for their desire in obtaining the Vornado account and further state that it will be impossible for them not to do a good job since it would materially jeopardize their growth in this area. This agency has seven accounts with over a million dollar billing, only three of which are handled by the Chicago office. The other four are handled out of New York. Over 600 personnel and 235 accounts now embrace their organization, of which 160 people and 120 accounts are now in Chicago.

They state as follows: "Management has investigated your company financially and potentially and has decided to invest in the Sutton Corporation as a good long-range (10-year) risk. We will place our entire organization at your disposal. In view of our over-all plans for the southwest part of the country we cannot afford not to do a good job. We have no fan or air conditioning account at present, we want one, we want a good one, we want Vornado."

It is not questioned that the man I saw is a top flight salesman, his main responsibility being that of obtaining new business for the agency. Considering this fact, however, it is still felt that the agency would do a good job for us. There is no question but what they could.

Leathers, Inc This agency made no specific presentation on Vornado, as was somewhat expected. This, however, is understandable since we had been quite vague with respect to our 1951 thinking in talking with them. It was obvious, however, that they had done quite a bit of research with respect to the product, the company and our best methods of operation. Details with respect to the history and accomplishments of each member of this organization are available in a separate brochure. It is felt that of all the agencies contacted in Chicago this one is best suited for our organization. Consequently, a meeting was held with them on Friday morning, October 6, at which time our objectives, anticipated sales, and budgets were discussed. I purposely told them nothing of any of our thinking or planning with respect to how we contemplated accomplishing our objectives for 1951. They have acquired both a deep freezer account and a dryer account by virtue of their having made outstanding, specific selling and merchandising recommendations which have been followed by those organizations almost to the letter. This is exactly what they will do for us.

Arrangements were made for them to come to Wichita on either Friday, October 13, or Monday, October 16, to present their program and recommendations for Vornado's 1951 program.

Attending the Friday morning meeting were Mr. Brandon—merchandising; Mr. Breakstone, who would be our account executive and who formerly was sales promotion manager for one range manufacturer, sales training director for another, advertising manager for a radio manufacturer, and advertising manager for a refrigerator manufacturer; the art director, evidently from his record one of the top men in Chicago; the copy director; the general manager and the media director.

Exhibit 2. THE O. A. SUTTON CORPORATION. Interoffice Communication (*Continued*)

It is difficult to place a finger on "why" but it is felt that this organization would be a very creditable adjunct to our own operation. Their presentation in Wichita will determine whether this is the case or not.

Our Chicago Distributor. Evans commented interestingly on the responsibility for the placement of printing, feeling quite strongly in view of his agency relationship that the entire responsibility for the complete production of any printed matter should be given to the agency. He feels that the 15% over-ride on top of the actual cost is quite inexpensive providing the agency carefully follows through all phases of the printing operation, checking details as is their responsibility to do and that the resulting quality of the work will more than pay for the 15% over-ride. He also states that in many cases the over-all costs will be cheaper since in big city printing operations prices are charged on a yearly rate, depending upon the amount of printed material normally bought by an account, whether that account be a manufacturer or agency. The agency placing orders for numerous accounts and buying large quantities of printing would enjoy a cheaper over-all rate which is passed on to the client.

Evans stated that like all other operations, an agency-client marriage, in order to be healthy, must be profitable for both parties, that the initial enthusiasm on the part of an agency is short lived even though they may see an increasing potential in the near future and be willing initially to invest in that potential. Evans feels that our association with a Chicago agency might very well cost us a little bit more but that the accruing advantages to us would far outweigh the extra charges. Putting it another way, it is Evans's feeling that on a $50,000 budget, for example, we will obtain far greater services and far more worth-while services for $50,000 in Chicago than we will for $50,000 in a smaller agency in Kansas City, Omaha, or Wichita.

Final Recommendations. It is recommended the presentations of the following agencies be viewed by the president, vice president of sales, and me:

1. Mumser Agency, Wichita
2. Leathers, Inc., Chicago
3. Hargrove, Inc., Chicago

If necessary because of unavailability of time the Hargrove, Inc., operation might be dispensed with; however, the above three agencies representing a small, medium, and large operation, would give us an excellent basis for making the final decision.

Advertising Manager

pany as a young agency with great ambitions. Sutton would be its first national account and therefore its reputation would rise or fall depending on the way it handled Vornado.

Of the Chicago agencies, J. H. Seville and Leathers, Inc., were the two which were anxious to make a presentation for Vornado's 1951 campaign. J. H. Seville had been eliminated because of the proposed account executive; Leathers, Inc., was the only Chicago agency in which the company was interested and which was willing and anxious to make a presentation. While the company had some interest in Hargrove, Inc., this agency was unwilling to make a presentation on Vornado's 1951 campaign before signing a contract with the Sutton corporation.

In the middle of October, Hargrove, Inc., Leathers, Inc., and Mumser were each asked to come to the company's offices on different days and to give their presentations, on the basis of which, decision would be made, and the new agency selected. Hargrove, Inc., sent three representatives who proceeded to show what the agency had accomplished for other clients whose names were presented on a list, and enumerated various services it would

put at the disposal of Vornado. The executives of Sutton believed that Hargrove would fulfill its various promises and would serve as a very good agency for the company.

Two days later, Leathers, Inc., gave its presentation, which consisted of a complete advertising program for Vornado including drawings, leaflets, copies of proposed advertisements, and related material. However, this agency's program was 50% costlier than the company's proposed budget permitted. The theme of the Leathers' campaign centered around the trade name "Circulair." Although well carried out, this was rather surprising since this was the established trade-mark of one of the company's principal competitors.

Two days after Leathers, the Mumser agency presented its program. This was also a rather complete presentation containing illustrations, proposed copy and ads. The Mumser program, well thought out and including several new and ingenious promotional ideas, required 10% less expenditure than the company's proposed budget. The theme of the winter campaign was built around the prospective shortage which the executives felt was unsuited to the fan business since no shortage existed and dealers and distributors were overstocked at that time of the year due to the cold 1950 season. However, they were impressed with the campaign because it showed an understanding of the peculiarities of the appliance business. Since Mumser had had no prior appliance experience, Sutton executives interpreted the presentation as demonstrating ability to do creative thinking. Furthermore, the Mumser agency promised that one partner, who was 40 years old with approximately 10 years of radio and newspaper experience, would spend all his time on the Vornado account. Since Mumser and Sutton were both located in Wichita, Kansas, close cooperation would be possible, which was considered important because the other agencies had restricted the travel expense they would assume.

Other manufacturers had pointed out that the larger agencies were not inclined to accept any changes after presenting a finished program to the client. Sutton was aware that its executives would not work well with an agency which would not accept their thinking and the advertising manager believed that an agency very definitely should not dictate the advertising policy of the company.

Executives in The O. A. Sutton Corporation were divided in their opinion as to the most desirable of the three agencies under consideration. The agencies had been told, however, that they would be notified shortly which of them would be given the account.

CASES IN BRIEF

1. The Garfield Company specializing in the manufacture of induction motors in the larger sizes from 100 to 500 hp., that is, motors of the type generally used for shop and similar requirements or for large installations, sold its products in competition with the several very large electrical companies with well established names. The Garfield sales plan consisted of selling motors to a large extent to O.E.M.'s, that is, original equipment manufacturers of large machinery requiring motors such as elevators, pumps, etc. It was believed that this plan was advisable as a means of getting exactly the right size and type of motor for a machine and that both Garfield and consumers as well as machinery manufacturers would benefit by having the two pieces of equipment interrelated and bought at the same time, thus placing the responsibility for good operation of the machine with its manufacturer. However, the company had encountered special difficulty in selling because its name was not as well known as competitors'. It was proposed that this be remedied, first, by an extensive direct mail campaign and by distributing catalogues and circulars, and secondly, by limiting advertising in one or more general magazines such as *The Saturday Evening Post, Time, Life*, etc. The magazine advertising would necessarily take the larger portion of any expenditure which the company would make. It was proposed to put $50,000 into the campaign the first year, and if results were promising to increase the appropriation in subsequent years.

Was the plan sound?

2. In July, 1952, the general sales manager of the Burroughs Adding Machine Company had to decide whether to go ahead with plans to run consumer advertising for the company's new duplex subtractor, an adding and subtracting machine which accumulated individual group totals and the grand total simultaneously.

The company's advertising agency had been working on the campaign for about a year. The initial ad had been approved by the general sales manager about July 1 but it had not previously been shown to the product release committee. It was designed to let people know that the new machine was available and to make them want to see and buy it. It also attempted to add to Burroughs' reputation in the office machinery industry by pointing to this latest achievement in product development. While the company was going ahead with its plans to market the duplex subtractor, the general sales manager questioned whether the consumer advertising should be run because of possible harmful effects on Burroughs' new program to recruit a dealer organization. These efforts were to start July 15. Burroughs only recently had decided to sell certain adding and cash registering machines through office supply dealers as well as through its own salesforce. This represented a major change in policy as the company had sold direct to users exclusively for more than 60 years. Machines sold by dealers were priced from $100 to $400, and required no installation service or technical knowledge for their application. The duplex subtractor which was to be sold only by the company's own sales force required the services of technically trained men. Its prices ranged upward from $525 and its market consisted mostly of larger business establishments such as banks, utilities, governmental offices, and manufacturing concerns.

Because the dealers did not know the above facts, risk might be incurred in running the advertising. It was feared that dealers would jump to the conclusion that Burroughs had brought out something new which made obsolete the machines which they had just purchased. Preparations for the introduction of the duplex subtractor and for the new dealer program had gone along independently

for many months. The general sales manager had become especially impressed with the timing problem shortly before the July 10th meeting of the product release committee.

At that time a regional manager had telephoned to report the signing of a dealer in Hartford who had just ordered 32 machines representing an inventory investment of between $5,000 and $6,000. This amount was about one-third of the dealer's total working capital If dealers thought that such substantial commitments of funds were being endangered by the introduction of a new and better machine to be handled only by Burroughs' own salesmen, the company's chances of winning the loyalty of desirable dealers were doubtful.

One alternative was to introduce the product by relying entirely on personal calls of salesmen to make the existence of the duplex subtractor known to potential customers. The salesmen would dislike this approach, however. and a strong advertising push behind an important new product made the new dealer program appear more acceptable to the direct salesforce. It was proposed that the branch managers get in touch with all dealers immediately to explain to them the facts The general sales manager would send a letter of explanation and instruction to the branch managers along with advance copies of the first advertisement for use in their mission. It was hoped that such a move would forestall serious protests.

3. An association of retail clothiers and furnishings proposed a cooperative industry promotion be undertaken. Discussion led to the proposal that there was need for a thorough preliminary study and possibly revaluation of the men's wear industry. Some contended that the promotion work was needed by the entire men's wear and closely allied textile industry while others asserted that the steps must be taken by the men's clothing industry. Since the primary incentive for the study was the desire to remedy the unsatisfactory earnings situation of many retail clothiers, what subjects should have been taken up in the study?

How should it have been organized?

It was roughly estimated that, if an acceptable plan of promotion were developed, a levy of 10 cents per man's suit would raise in excess of $2.5 million annually. A preliminary study might be made at a cost of around $10,000.

How should decisions be arrived at as to the means to be adopted to increase sales?

4. Should a company manufacturing stove, silver, and metal polishes, which contemplates advertising to secure the benefit of increased general demand for such products in the spring of the year, start its advertising in advance of the peak season, for instance, in February? At the beginning of the growth of demand in March? Or at some other time? Should the company's advertising be concentrated in off season so as to even out the fluctuations?

5. Should a paint company controlling a number of subsidiaries, each of which has its own brands, endeavor to meet the general decline in demand for quality paints by broadcasting over a national network a program featuring a nationally familiar orchestra at a total cost estimated in excess of $7,500 per week?

6. What advertising media should be used by a firm controlling a rust-proofing process for metals? Various manufacturing firms are licensed to use the process either for custom work or for rust-proofing their own products.

7. What should be the relationship of advertising policy to different periods of the business cycle?

8. How may specific advertisements be tested prior to insertion and publication? Are such tests conclusive?

9. Should a company manufacturing industrial equipment continue its advertising through periods of depression? Under what conditions may a company manufacturing industrial equipment find it advisable to use general publications?

10. What is the distinction between

publicity and advertising? To what extent may publicity become an essential part of a selling program?

11. Discuss the proposal that within each industry, for instance the tire industry, trade associations set a limit to the size of space which any firm may use in a specific publication as a means of cutting down the costs of distribution.

12. Should the commission method of compensating advertising agencies be abolished? Are advertising agencies economically justifiable?

13. How may a firm measure the results of broadcast advertising? Are fan letters indicative of the selling value of broadcast advertising?

14. Outline the various forms of direct-mail advertising, giving the advantages and disadvantages of each.

15. How may one reduce the waste of expenditure in connection with direct-mail advertising? What testing methods are available? How effective are they?

16. Some years ago tests were made covering various products advertised in general magazines and it was found that the cost per inquiry ranged from $13.15 for a cosmetics product to 50 cents for a food ingredient Other costs for cosmetics were $5.16. For food, $4 55, $1.74, and $1.03.

What accounted for the wide differences in the cost per inquiry?

D. DEALER AIDS, OTHER ELEMENTS OF THE SALES PROGRAM

While personal selling and advertising of the more common types make up the mass of selling effort, other methods such as are involved in various types of cooperation with middlemen, sampling, and correspondence, may play minor or even major parts in some sales programs. In various combinations with personal selling and advertising, these increase the range of program choices.

Cooperative Advertising with Retailers. For many manufacturers, the effectiveness of advertising is dependent upon the nature and effectiveness of contacts of middlemen with buyers. Failure of retailers to display or push a product at the point of sale to ultimate consumers may nullify the good effects of advertising and selling campaigns in creating buyer recognition or preference. In other sales programs, local advertising closely associated with local dealers may prove a resultful adjunct to personal selling and other methods. Consequently, cooperative advertising with dealers, in which the manufacturer finances usually a part but sometimes all the cost of space, appears to have grown more important in practice.

Some difficulties in the use of cooperative advertising have been encountered as a result of the effort of some recipients of advertising allowances to use them as price concessions. In other cases, price concessions have been made under the guise of advertising allowances. The resulting unfair discrimination has more recently been prohibited in the Robinson-Patman Act. Cooperative advertising gives rise to numerous problems besides those which have to do with possible discriminations contrary to law. Amount, frequency, copy, media, control are a few among the problems upon which decision must be made.

Correspondence, including in the term only letters written to individuals in which some consideration is given to the wants of a particular individual, as contrasted with form letters to groups of individuals, is occasionally used as an independent means of selling, but its chief value lies in its use as a supplementary means either to advertising or to personal selling. An enumeration of some of the uses to which correspondence may be put in connection with selling indicates this.

1. The seller may use a letter which he prepares for each prospective buyer, taking into account all available information as to that buyer's wants. The letter can thus be made direct in its presentation, can take into account differences in buyer's wants and, next to personal selling, furnishes the nearest approach to personal contact. But the cost of preparing such letters is high, and the difficulty of writing good letters which satisfactorily convey the sales proposition offered is not to be underestimated; both in this and other uses of the letter, the proportion of those which present effectively the necessary information is in the minority.
2. The letter may be used as a means of continuing selling efforts in relation to a prospective buyer, or as a means of stimulating or maintaining interest in the house and proposition between the salesman's calls.
3. The letter is constantly being used by many companies in replying to inquiries developed by advertising or other means. The relegation of letter writing to incapable correspondence clerks has been the result of failure to realize the importance of this form of customer contact. The proportion of direct inquiries developed by advertising constitutes a valuable asset which should be carefully conserved through judiciously thought-out answers and utilization of the sales possibilities.
4. The letters with which the salesman is ordinarily most concerned are those to customers in connection with inquiries, credits, delivery, or other matters which may require additional information. If these are well written and in accordance with the principles of good salesmanship, they are a help to the salesman in his work; if they do not embody these principles, the converse is true. The good will as well as the basis for repeat business, which a salesman may have spent years in building up, is sometimes destroyed in a few minutes by a careless credit or correspondence clerk.

Dealer Helps. The manufacturer, on the one hand, is not and usually cannot be responsible for the completion of the distribution process to the consumer. Ignorance, incapacity, and conflict of interest of middlemen, on the other hand, intervene to check the flow of a manufacturer's commodities through wholesale and dealer channels. The manufacturer may, therefore, find it profitable not only to sell to the dealer but to help him to sell, to advertise, and to operate his business more successfully. Business advice and supervision, training of dealers' salesmen, display material, cooperative advertising arrangements, missionary sales work may all be used and may constitute important elements in the sales programs of certain manufacturers.

Dealer selling helps are, of course, usually to be classified as indirect or "pull" methods.

Samples are used extensively in selling of various types. In the sale of raw materials, samples are used, particularly where the material is such that it cannot be graded in a way to convey to the buyer a complete description. Samples likewise have been used by numerous sellers both of consumers' and of producers' goods, because a sample of a product is frequently more effective in conveying impressions than thousands of words. Samples of low-price goods are frequently distributed to retail consumers as a sales promotion measure. They may be distributed in various ways, sometimes by sample crews, sometimes to retailers who are expected to distribute them among consumers. Sometimes samples of more expensive goods are sent to retailers for display to consumers. It is more usual, nevertheless, for retailers to receive samples from wholesalers and manufacturers, upon the basis of which purchases are to be considered.

Sampling is not adapted to all types of products. For certain products it may be impossible to furnish samples; in other cases the installation of the product itself may be the nearest substitute to a sample.

Sample displays and demonstrations are also furnished in connection with various fairs, exhibitions, and shows, of which there are many types. They range from an important dry goods fair, involving hundreds of thousands of dollars' worth of goods and maintained for retailers, wholesalers, and manufacturers, to a local food show in which only a few manufacturers and dealers participate. The automobile shows of the country are recognized features for the display of sample automobiles prior to the buying season. In addition to the temporary fairs and exhibitions, there are a few permanent exhibitions of samples which are of interest to certain manufacturers.

Reciprocity. Depression conditions give prominence to reciprocity, although the practice is common at other times. A buyer who is an important seller may urge his purchases as a reason for preference. *A*, a manufacturer of motor trucks might, in trying to sell trucks to *B*, a steel manufacturer, urge that, because *A* bought steel from *B*, *A* should be favored in any purchase of motor trucks by *B*. Opinions of executives on the practice range from those which term the method "business blackmail" to those which regard reciprocity as "natural," expedient and, if controlled, sound business.

62. BECKNER COMPANY. Use of Cooperative Advertising

Although the Beckner Company had occasionally engaged in cooperative advertising with its dealers, it was not until the company first introduced its line of Division B garments for women in 1930 that cooperative advertising became an important part of its sales program. While no particular difficulty had been encountered in the few experiences previous to 1930, the advertising manager was aware of the abuses suffered by other concerns using coopera-

tive advertising and was therefore somewhat reluctant to introduce the policy as a permanent measure. He realized that not only was the system expensive, but that often the absence of suitable control over the retailers had resulted in the placement of poorly prepared advertisements in newspapers of doubtful coverage. A number of the company's salesmen had stated, however, that other manufacturers of similar products were stressing cooperative newspaper advertising, which gave them a decided advantage in obtaining promotional support from the retailers. After considerable deliberation, the advertising manager finally decided to adopt the policy if certain restrictions could be included. Each year those stipulations found to be unnecessary were eliminated until in 1937 the regulations were exceedingly simple and flexible. The history of these progressive changes is outlined below as they occurred year by year.

The Beckner Company, with main offices in Kansas City, Missouri, was one of the largest manufacturers of men's, women's, children's, and infants' wear in its field. The company maintained six combined branch warehouses and sales offices, from which operated 40 salesmen selling direct to department stores, dry goods stores, and clothing shops throughout the United States. In 1936, the total sales volume of all the items manufactured exceeded $10,000,000.

The preliminary step taken in determining the areas in which cooperative advertising was to be applied consisted of grouping the cities of the United States into six divisions according to actual or trading population as follows:

Group I. All cities having an actual population of 500,000 or over.
Group II. All cities having an actual population of 100,000 to 500,000.
Group III. All cities having an actual population of 50,000 to 100,000 or a trading population of 125,000 or over.
Group IV. All cities having an actual population of 25,000 to 50,000 or a trading population of 75,000 to 125,000.
Group V. All cities having an actual population of 10,000 to 25,000 or a trading population of 35,000 to 75,000.
Group VI. All cities having an actual population of less than 10,000 or a trading population of less than 35,000.

The advertising manager concluded that the cooperative plan should apply only to the larger stores in cities coming under the first three groups, since sales potentials in the smaller communities were not considered large enough to warrant any expenditure by the company, and furthermore, advertising by leading stores in large centers would have an excellent influence on consumers in the smaller adjacent cities. He was of the opinion that small-town newspapers were not effective advertising media, and that, while their rates would naturally be lower, the returns per dollar would be much lower than could be expected from metropolitan newspapers.

In formulating the general rules to cover adequately the use of cooperative advertising, the advertising manager considered: (1) the type of store desired, (2) volume of sales necessary to justify an expenditure of this kind, (3) location of store, (4) nature of the advertising to be allowed, (5) provisions relating to advertising rates and billing, (6) the kind of merchandise to be included, (7) the nature and duration of the agreement, and (8) the amount to be spent in each case. He believed that a consideration of these elements would cover all the possible sources of misunderstanding and, furthermore, that a careful analysis of each factor at the outset would prevent the company from becoming engulfed in difficulties arising from lack of control. For purposes of clarification, it may be best to discuss the various provisions under each of the above headings in the order considered by him.

1. *Type of Store.* The advertising manager decided that, if the company were to benefit from the use of cooperative advertising, only those stores should be considered which were recognized leaders and commanded a position of respect in the community. Moreover, only those stores should be chosen which were well managed, progressive, and maintained a favorable financial and credit standing. He believed that this information would not be difficult to find or determine, since the company's past experience with the retailers in question would provide most of the necessary data.

2. *Volume of Sales.* Each store would be required to show a record of substantial volume of business done on Beckner products during the previous one or two years in order to become eligible for cooperative advertising. In arriving at a sales volume to be considered favorably for an allowance, the advertising and sales managers worked together and, after taking into account geographical and trading-area boundaries and the nature of competition within a town or area, they fixed a definite figure. A store which did not measure up to the minimum sales volume required could be considered for cooperative advertising, however, provided its sales potential was sufficiently large and the store itself possessed the willingness to strive for a volume equal to the minimum. In such cases, the advertising manager was to permit participation if this willingness on the retailer's part was defined by what the former regarded as a substantial confirmed order.

3. *Location of Store.* It was stipulated that each store chosen must be located in one of the recognized trading areas authorized as coming under the scope of the particular appropriation granted. For instance, if a given appropriation was authorized to cover trading areas in Groups I, II, and III, then, as explained above, stores in area Groups IV, V, and VI would not be eligible. Occasional exceptions were to be made to the above rule when, in the judgment of the sales and advertising managers, a certain store showed exceptional sales volume or when special local conditions exhibited a sales influence substantially greater than the population figures indicated, such as was often true in college or resort towns. In these instances, however, exceptions were to be granted only with the understanding that they would also be recognized upon request from other

stores of equal standing and volume in the same immediate trading area, so as not to constitute any preferential treatment on the part of the company.

4. *Kind of Advertising.* After analyzing this phase of the problem, the advertising manager decided that only display advertising in recognized daily or Sunday newspapers listed in the *Critchfield Digest* should be used, since this register included the rates and circulation of established daily papers. He pointed out that this would prevent the stores from placing advertisements in small neighborhood papers with inadequate circulation. He also stipulated that the textual material contained in the advertisements, or "copy," should be dignified and effective. The Beckner Company had prepared copy which could be used by any retailer desiring it, but there was no rule against a retailer's writing his own material, as long as it met the company's requirements. Another provision stated that the name "Beckner," or a Beckner-controlled trade name or trademark, should be included in the advertisement. Obviously the omission of any such distinguishing trade names would not have benefited the company.

5. *Advertising Rates and Billings.* In accordance with the practice followed by many other manufacturers, it was required that all advertising be billed at a store's lowest contract rate since many newspapers in the United States charged the manufacturer higher rates than they did retailers in a local area. Each retailer was to be required to render a monthly statement, accompanied by "tear" sheets showing the advertisements covered by the billing. In order to provide a clear explanation of all transactions, all statements were to show the full cost of the advertising to the store divided by half to indicate the amount due from the Beckner Company. The company reserved the right to pay statements either by check or by a merchandise credit, whichever it believed desirable at the time of payment.

6. *Kind of Merchandise.* It was further stipulated that Beckner cooperative advertising was to apply only to the exact class of merchandise specified in any given agreement and that at no time was it to be construed to cover other parts of the Beckner line or the line as a whole. As a protection to the company, this advertising plan was not to apply to special sales merchandise, bargain stock, close-outs, or merchandise featured at less than regular prices.

7. *Nature and Duration of Agreement.* All agreements and confirmations for cooperative advertising were to state specifically the amount granted, the merchandise covered, the duration of the agreement, the kind of advertising, and the details of billing. The advertising manager was insistent that all terms of the contract be clearly understood by both parties at the outset so as to prevent any unfortunate misunderstandings while the plan was in operation. Each agreement was to cover a definite period of time, and under no circumstance was it to be interpreted as of continuous application. It was the advertising manager's opinion that the best possible procedure was to limit all agreements to a period of 6 months, to permit the company to make any changes in the terms which might be necessary because of price movements.

8. *The Appropriation.* The appropriation granted to any store was to be in line with local newspaper rates, the size of the promotional task to be accomplished, and sales possibilities within the area. In arriving at the sum allowable

in each instance, judgment of all factors peculiar to the particular situation at hand was to form the real basis for decision. The advertising manager stated that the amount was not to exceed 3½% or 4% of actual sales possibilities, although he realized that no flat percentage rate could be applied uniformly. He indicated that the appropriation might be based upon what the retailer had been accustomed to spend on Beckner products, what he wanted to spend in the future, his willingness to promote the lines designated by the company, the store's past and potential sales record, or a combination of any of these, depending upon their importance. From 1930 to 1932, an analysis was made of every desirable outlet in all cities of Groups I, II, and III, and amounts to be allotted to the various retailers were determined. The allotments to stores in Group I cities ranged from $75 to $45, in Group II cities from $25 to $200, and in Group III from $20 to $50.

As time went on, a constant check was made of authorizations and the amounts actually expended and, much to the advertising manager's surprise, it was found that many of the anticipated difficulties failed to materialize. As this became more apparent, an attempt was made at each semiannual meeting to simplify the provisions and eliminate as many of the undesirable restrictions as possible and, at the same time, to broaden the scope of the advertising. The first move was to extend cooperative advertising in 1931 to the other products in addition to the Division B garments. By 1934, the last limitation pertaining to class of merchandise was removed, so that the agreements covered the entire Beckner line. In making this change, the company still retained the right to restrict the use of this advertising plan to products selling above a specified price.

While in respect to certain products it was necessary for a store to have attained a designated sales volume before it could receive the 50% rebate on its Beckner advertising, in 1934 the plan was opened to all stores for many of the company's items. In several sections of the country, geographical restrictions were maintained if it was thought undesirable to extend cooperative advertising privileges in certain territories. The company also adopted the policy of paying the full amount of an introductory newspaper advertisement for those large customers who purchased sizable amounts of a new product. In such instances, the newspaper space was to cover only a stipulated size, above which the company and the retailer divided the space cost. The agreement covering Division A of the company's line for the last 6 months of 1934 is shown in Exhibit 1; the provisions covering Division B merchandise were similar. In 1935, the agreements were revised to permit the use of cooperative advertising in all areas irrespective of geographical location.

Late in 1936, two other important restrictions were removed. With regard to all the Beckner merchandise, it was decided that it was no longer necessary to specify the amount the company was willing to spend with a given store. Since each retailer paid half the cost of the advertising space, the advertising

Exhibit 1. BECKNER COMPANY. Cooperative Advertising Terms—Division A Products July to December, 1934

Advertising Cooperation

When applied for and confirmed in writing, cooperative advertising is allowed in the following specific cases:

1. *Group A Products*
   a) Fifty-fifty basis on all numbers. Open to stores whose net purchases of "Beckner's Group A Products" equaled or exceeded $500 during the fiscal year December 1, 1932, to November 30, 1933.
   b) Fifty-fifty basis on "Cottonfabrik" numbers, "Slip-On" numbers, or numbers retailing for $3 or more per garment. Open to all stores.
2. *Group B Products*
   a) Fifty-fifty basis on all numbers. Open to stores whose net purchases of "Beckner's Group B Products" equaled or exceeded $500 during the fiscal year December 1, 1932, to November 30, 1933.
   b) Fifty-fifty basis on "Cottonfabrik" numbers or x and y numbers retailing for $1 or over, or z numbers retailing for $2 or over. Open to all stores.
3. *Group C Products*
   Fifty-fifty basis on "Jackie" suit numbers, "Cottonfabrik" numbers, or numbers retailing for $1.50 or more. Open to all stores.
4. *Group D Products*
   a) Fifty-fifty basis on "Cottonfabrik" and "Freddie" numbers. Open to all stores.
   b) Fifty-fifty basis plus 100% on first advertisement of not over 300 lines. Open to stores whose initial purchase of "Freddie" or "Cottonfabrik" numbers for the current season equals or exceeds 100 dozen.
5. *Group C and D Products* (Middle Western District)
   Fifty-fifty basis on all numbers Open to stores located in states of Illinois, Indiana, Ohio, Michigan, and Kentucky.

A letter showing the confirmation of an agreement and the rules pertaining to the use of cooperative advertising during the last half of 1937 are as shown below:

Gentlemen:

We are very glad to confirm the following advertising agreement recently made with you by our Mr. ____.

It is understood that, subject to the stipulations on the attached sheet, we will pay one-half the net cost of the space to you for such Beckner advertising as you may do this year.

While we wish to cooperate with you in every possible respect, it must be definitely understood that we cannot deviate from the attached stipulations governing cooperative retail advertising of Beckner merchandise. We request, therefore, that you read over and follow these stipulations carefully, so there may be no misunderstanding or holdup in connection with any bills or credit requests which you may send to us.

We believe this advertising cooperation plus the quality of the merchandise itself represents an unusually effective combination, and we hope it will enable you to promote Beckner merchandise most successfully and profitably throughout the season. If we can be of any further assistance to you, please be sure to let us know.

Very truly yours,
BECKNER COMPANY
Advertising Manager

STIPULATIONS

All agreements covering cooperative retail advertising of Beckner merchandise are made with the distinct understanding that in no case can we pay more than fifty per cent (50%) of the net cost of the space to the retailer and that we *cannot pay* any part of the cost of advertisements which come under the following general classifications:

a) Advertisements which cover a special sale, i.e., seconds, close-outs, or merchandise advertised at a special price or at less than the price at which the merchandise is usually sold by the retailer.
b) Advertisements which do not unmistakably identify the merchandise advertised as "Beckner."
c) Advertisements which offer competitive merchandise in the same advertisement with "Beckner."
d) Advertisements which appear in any publication by a retailer which is issued less than 12 times a year.

Statements covering cooperative advertising must be carried out to show the date, the name of the paper, the size of the advertisement, the total net cost, and the 50% due from Beckner. Copies of the advertising should be attached to the statement, and statements should be sent, preferably each month, to the Beckner branch office serving the district in which the retailer is located.

BECKNER COMPANY

manager believed that no store would spend more than a justifiable amount. Experience had demonstrated that the retailer rarely exceeded the amount appropriated and, in fact, often failed to use all that he was permitted to spend. In those cases where a store wished to spend more money, the advertising manager felt certain that generally the advertising would prove effective, since he believed a proprietor would not offer to match the expenditure dollar for dollar unless he had given due consideration to all factors involved. The second specification removed in 1936 was that the company no longer limited its Division B cooperative advertising to merchandise selling above a given price but applied it to this line regardless of the retail price of the item. For instance, while the plan was once restricted to products selling normally at $3 and up, the agreements now covered all the cheaper priced styles, although the company continued to refuse payment on merchandise sold at sale prices. At first, it was feared that it might become necessary to return to the old price stipulations if stores concentrated too much of their advertising on the low-priced items of the line, but after watching this particular aspect for a year it was decided in 1937 that there was no apparent danger. Nevertheless, as a measure of precaution this portion of the agreement was restricted to the Division A line, while with respect to Division B garments the company continued to apply the plan only to those styles selling above stipulated prices.

Highly pleased by the success of the cooperative advertising scheme, the company reduced all regulations in 1937 to what the advertising manager considered the minimum. The plan had met with such gratifying results that he believed there was no need to include restrictions which would involve considerable time and trouble in checking; furthermore, he wished to make the system available to all retailers without discrimination of any sort. He realized, however, that some stores were not desirable as cooperative advertisers and therefore instructed the fieldmen to seek only the well-rated leading stores in the larger cities. As he stated to the men, "We do not want to go after small stores whose volume of business does not justify cooperative advertising; if any given store asks for cooperative advertising, you should not turn it down without first consulting this office, as we wish to play absolutely square with all accounts. We feel that you will not run into any difficulty, for we assume in most cases fifty-fifty advertising will not be thought of unless you yourself raise the question."

Beckner policies relating to cooperative advertising were continued until the period of war shortages caused the discontinuance of cooperative arrangements. Not until 1947 was the question of resuming such arrangements on essentially the same basis as in the prewar period brought up. However, certain provisions had been developed which, if printed on price lists, would clarify the offer of cooperative advertising. The statement to be printed might contain the following proposals:

1. That cooperative advertising on a 50/50 basis was available at dealers' contract rates to all retailers who handled Beckner merchandise, subject to the following provisions:
2. They must apply for such advertising in writing and must receive confirmation in writing.
3. They must comply with special stipulations as to the type of publication in which the advertising may appear, submission of proofs, and the types of copy. These provisions were generally to be liberally interpreted. The publication of the price list was intended to make the offer on proportionally equal terms to all dealers.

Should cooperative arrangements with retailers be resumed? Would the proposed terms comply with the Robinson-Patman Act?

63. WINCHESTER OIL COMPANY. Reciprocity

The Winchester Oil Company, with main offices in Chicago, Illinois, dealt only in the highest grade lubricating oils. Sales amounted to approximately 1,200,000 barrels annually. The price range was much higher than that of competing oils; the product was sold on a strictly quality basis, its reputation having been built up over a long period.

One of the largest eastern buyers of Winchester oil was the Arcadia Railway Company, which had used Winchester oil exclusively for 10 years. On several occasions, price competition had been overcome in quotations to the Arcadia Railway Company by the superior quality of Winchester oil. After years of mutually satisfactory dealings, the eastern branch manager of the Winchester Oil Company advised his sales manager that he believed henceforward the company would have to follow a policy of reciprocity with respect to the Arcadia Railway Company, inasmuch as an oil company doing a substantial business with the railroad had demanded that it use its lubricants. The sales manager of the Winchester Oil Company paid a visit to the purchasing agent of the railroad and learned that, although the management of the railroad believed reciprocity to be economically unsound, it was obliged to engage in it in order to keep traffic from falling off. The sales manager for the Winchester Oil Company pointed out that his company also shipped cars over the Arcadia Railway and that, moreover, the railroad's mechanical engineers had always recommended Winchester oils because of their superior quality. However, in his report to the general manager, the sales manager expressed fear that the Winchester Oil Company would lose the contract for the ensuing year, since efficiency demanded that a single lubricant be used and the Winchester's competitor shipped twice as many cars over the Arcadia Railway as did the Winchester Oil Company.

Upon receipt of the sales manager's report, the general manager issued an order to the shipping department that all goods going east should, as far as possible, be routed over another road than the Arcadia. When the sales man-

ager next called upon the railroad's purchasing agent, he was told that the traffic department had reported a falling off of one-third in the number of cars of oil shipped by the Winchester company during the previous month. The Winchester sales manager said to him that the falling off was due to reciprocity. The railroad's purchasing agent then gave him conclusive proof that the new routing policy of the Winchester Oil Company was more expensive.

How far may reciprocity be carried before it becomes economically unsound? What methods should this sales manager have used in meeting the reciprocity argument? What effect will such reciprocity have on the long-range standpoint of a company? Can this be classed as unfair competition? Should a company do as the Winchester Oil Company did and establish reciprocity as a policy?

64. CHANNEL OIL COMPANY. Problems Arising from Gratuities

The Channel Oil Company, located in San Francisco, California, was engaged in drilling for oil and in the production and distribution of gasoline. In 1939, shortly after a large pump installation in the refinery had been completed, the general manager of the company was presented with a case of imported champagne, and the purchasing agent, the refinery engineer, and the refinery superintendent received in the mail $50 merchandise orders at a local men's furnishing store. Upon the receipt of these gifts, the three latter men came in a group to the general manager and asked if they should accept them.

The pump installation in this case had been made to replace defective equipment which had been installed in 1938 when the company constructed, as an addition to its refinery, a modern cracking plant at a cost of approximately $3,000,000. The original pump equipment had consisted of two large piston pumps costing, installed, about $110,000. These two pumps had proved to be very unsatisfactory in operation and had resulted in failures, plant shutdowns, and excessive maintenance costs. Subsequently, it was learned that the pumps were of a special design that had never been employed before under similar operating conditions. In 1939, the company executives concluded that the pumps would never give satisfactory service and that new equipment of a different design was necessary.

In negotiating for the purchase of the equipment, the company did not follow its customary procurement procedure. For standard equipment and for ordinary purchases, the purchasing agent was responsible for selecting sources of supply, securing bids and conducting all negotiations involved in purchase transactions. The company did not hesitate, however, to deviate from this procedure when special engineering or design problems were involved. The pump specifications in this instance were unusual with respect

to operating temperatures, pressures, and the quantity of oil to be handled. As a result, after the decision to secure new equipment had been made, the general manager instructed the engineering department to make a preliminary survey of possible suppliers and to get their recommendations and rough approximations of cost on equipment to handle the job satisfactorily.

The company annually purchased from various sources about $30,000 worth of standard types of pumps. The refinery engineer discussed the problem with five regular suppliers who were known to be reliable and secured their estimates as to approximate costs. The results of these investigations were reviewed by the general manager, the refinery engineer, the purchasing agent, and the refinery superintendent, and it was agreed that the Centro Pump Company, the lowest bidder with an estimate of approximately $95,000, should proceed with the help of the Channel Oil Company's engineering department to design pump equipment according to the rough plans developed in discussion with the refinery engineer.

Subsequently, the engineering department gave the Centro Pump Company the benefit of its experience with regard to alloys, outlet design, etc., to avoid problems of corrosion arising from the high temperatures and pressures at which the oil was to be handled. In addition, the Channel Oil Company agreed to let the Centro Pump Company install two very large, high-pressure turbo-driven centrifugal pumps rather than a series of small pumps which it had previously been the practice of the industry to use for jobs of that nature. When the designs were completed, the Centro Pump Company submitted performance curves, dimension prints, and cross-section drawings covering the operation, dimensions, and construction of the pumps and quoted a price of $93,500 which was to cover the necessary attaching fixtures and the services of an installation engineer for a period of 45 days.

The design and price were approved by the Channel Oil Company, and an order was placed, the specifications of which required that a certified test should be made before the pumps were delivered. This test was made in accordance with the agreement upon the completion of the pumps, and certified test curves and test data covering operating capacities, power requirements, and pressures were forwarded to the Channel Oil Company to become a part of the guaranty, since the Centro Pump Company warranted that the pumps would perform the same service under the permanent installation. The guaranty in this instance, covering a period of one year from the date of installation, conformed to the practice of the industry for such equipment and included the usual warranties with respect to defective materials, workmanship, etc.

The new pumps had been in operation for approximately 2 weeks when the gifts from the Centro Pump Company were received and the refinery engineer, the purchasing agent, and the refinery superintendent appeared

before the general manager for a decision as to what should be done with them. In discussing the matter with the general manager, these men expressed the opinion that the gifts had been offered because the Centro Pump Company sincerely appreciated the help which the Channel Oil Company's engineering department had given in the design of the pumps and the opportunity to install a new type of equipment. The Channel Oil Company had never adopted a formal policy with regard to gratuities. The general manager realized, however, that the purchasing agent received gifts at Christmas and that he occasionally had on hand tickets to football games, prize fights, shows, etc., which he distributed among the officers of the company. In addition, the general manager himself at periodic intervals received invitations from one of the construction contractors stating that a table had been reserved for a luncheon at a prominent local hotel and that the contractor would like to have him bring several of the company executives to occupy it.

The general manager believed that gratuities of this type were widespread throughout the oil industry and that executives and purchasing agents not only received them willingly but in some cases solicited them. Furthermore, he believed that the general attitude which had developed in the Channel Oil Company with regard to gifts was no different from that which existed in other companies in the industry. After considering the situation carefully, however, he was uncertain as to what answer he should give to the three men with regard to the presents they had received from the Centro Pump Company.

65. CONSTABLE PRESS EQUIPMENT CORPORATION. Company Policy Regarding the Use of Trade Conventions

The Constable Press Equipment Corporation was one of the industry's outstanding producers of printing presses and for over 40 years had enjoyed what its executives termed a moderate degree of success. Until 1945, the management which had been in control believed very strongly in utilizing the convention as a means of meeting the trade and building sales volume. Constable participated on a major scale in four of the annual national conventions held by the trades it served, and on a lesser scale in from four to eight others. In addition, ten or more sectional conventions and many local trade meetings and dinners were usually attended by home office sales executives as well as by local managers and salesmen. At the four major conventions, in addition to speeches and product displays, numerous parties were given for the purpose of meeting and entertaining customers and prospects. The convention procedure required bringing in from the home office and from the field between 15 and 25 men including managers, salesmen, office personnel, and engineers to serve as a company nucleus. A convention generally included one or two cocktail parties given by Constable, the cost of which ran around $10 per guest. The parties were lavish affairs featuring

whole hams and other meats, *canapés,* and several types of cocktails. Between 800 and 900 persons were in attendance at the major conventions.

In 1945, a new management came into control of the company and, after observing the techniques being used, was in disagreement at some points. Many executives were of the opinion that a large part of the expense for housing, food, and liquor was wasted and that better results might be achieved in other ways. The general sales manager who had continued from the previous management protested against this change of policy, claiming that the firm's business had been built up through this constant contact with the trade. However, he reduced the convention schedule and, while it was not completely eliminated as an instrument of sales promotion, expenses were drastically reduced.

Under the revised policy, conventions were reduced to about one a year, and the number of company personnel involved to 8 or 10 men. The company previously had estimated the cost per man at about $500 per convention. While the new policy meant a saving of $10,000 in personnel expenses, the reduced number of conventions saved up to $25,000. Annual sales for 1945 were $7,000,000 with the total of selling, advertising, and general administrative expense, exclusive of salaries and wages, amounting to 6% or 8% of this figure.

The new policy with respect to the trade convention was not accompanied by any other change in sales promotion methods. The company relied mainly on advertising in trade papers, but there was no increase or decrease in the amount appropriated although the new management believed the medium was being more effectively used. In addition, catalogues and direct-mail pieces were employed, while additional emphasis was placed on the amount and kind of information sent to salesmen on competitive conditions.

CASES IN BRIEF

1. Vossler Company, located in Chicago, Illinois, maintained a cooperative organization which it called the merchant's service bureau, the purpose of which was to extend a complete merchandising service to retail merchants who looked to Vossler as a major buying source. The bureau contained a store planning division, which had gradually grown up as a result of (1) the efforts of one man in assisting customers to utilize most effectively certain store fixtures, which they purchased from Vossler, and (2) the assistance given by Vossler credit men and division sales managers during the depression in helping retailers to put their stores on a more efficient basis. Certain Vossler executives believed that sales could be increased and a relationship of great value to the company built up by helping customers make their organization more effective.

By 1946, Vossler which had been organized in 1861 as a wholesaler of dry goods, chiefly piece goods, was operating not only as a wholesaler but as a manufacturer and retailer as well, with 35 manufacturing plants, 5 wholly-owned, and a dozen partially-owned retail stores. It sold dry goods, luggage, clothing, and

notions under about 200 different trademarks. The salesforce consisted of about 300 salesmen; general salesmen sold the entire line and maintained sample rooms for the display of merchandise in the territories in which they lived; specialty salesmen lived in Chicago and made semiannual trips to their territories. Many sales were consummated at the company's main office building in Chicago. In 1939, this office had been completely remodeled by the store planning division. Formerly buyers had made their selections from the actual merchandise, which had been stocked much as in a warehouse. After remodeling, samples of merchandise were displayed on the first four floors, which were laid out in department store fashion, with maximum utilization of attractive counters, effective lighting, wall exhibits, and other devices to show the merchandise to the best advantage. National advertising was confined to one line, although it would probably be extended to others when goods were in greater supply.

The merchant's service bureau provided free service to those retailers who had agreed to purchase a minimum amount of merchandise from Vossler each year. While in 1946 about 1,500 retailers were taking advantage of this service, the bureau manager believed that the number would increase in 1947 to the prewar total of 2,600. Among the services which the Bureau offered were: preparation of advertising copy and layouts, planning style shows, suggesting display ideas, writing special-purpose letters and announcements, discussion of retail problems, management guidance, research and analysis, and store planning. All members also received a quarterly bulletin published by the bureau, which contained articles and suggestions for better ways of solving merchandising problems. In addition to helping retailers with advertising copy and layout, the bureau furnished free mats for advertising certain products which Vossler sold. In the past, the bureau had published booklets on style shows, displays, and other methods for effective merchandising. In 1946, such booklets were no longer published, but instead specific information along these lines was given out on request from a retailer. Before the war, many retailers had sent representatives to the bureau for a special course in display; although this course had been discontinued, retailers still had the privilege of sending men to the bureau to work with the Vossler display expert for a period of 2 weeks or longer. Bureau officers believed that individual work of this nature was even more valuable to the retailers but were planning to reestablish the old course if the demand were great enough. In addition to the services performed for retailers, the bureau staff of nine made up portfolios for salesmen, supervised mailing of promotional material, and was responsible for advertising all products except the single line advertised nationally through an outside organization.

The store planning division was capable of undertaking a complete designing job for old customers who had been purchasing a certain minimum volume regularly and for new customers if they could provide business in a location in which Vossler wanted a good outlet. Members of the store planning division, which kept records of locations that would support stores large enough to interest the company, would occasionally help individuals in whom they had confidence to establish a new business in that locality. For Vossler to be interested in remodeling a store, assurance must be provided that it could produce a volume of at least $150,000 annually. No work was started until approval had been obtained from the salesman in whose territory the establishment was located, the credit manager, and the division manager.

Once a decision was reached to work with a concern, men were sent from the store planning division to make a survey. The customer paid the expenses of these men plus $20 a day for the time which they spent there, and 2 cents a square foot for the plans which the division prepared. Formerly survey men had been sent to any area in which the general salesman

had indicated that several customers might be interested in remodeling, but in 1946 the three men doing this work were dispatched to make only surveys that had been specifically approved. After the survey had been made, one of the six designers in the store planning division prepared the plans for remodeling. The chief purpose of remodeling was to increase the sales volume, so that while every attempt was made to design an attractive store, utility was not sacrificed to beauty Since small work runs made it expensive to obtain necessary special fixtures, Vossler employed carpenters to build and install them in the stores. The customers paid these men the regular union scale in addition to their expenses. Because of the difficulty of obtaining materials, the number of carpenters had been reduced from a prewar peak of 18 to 8.

Although members of the merchant's service bureau were convinced that they were performing a service of great value in increasing the business of Vossler through expanding sales of retail outlets, the war had intervened before the results of the program could be measured The manager of the bureau believed that the store had just done a small part of the task that it could accomplish In addition to planning layouts where work had not previously been undertaken and further remodeling for former customers, a profitable field existed in the larger stores which might call upon the bureau for departmental planning even if they did not require a complete store layout.

2. The Tepper Soap Company, founded before 1900, sold toilet and laundry soaps, and soap preparations, amounting to approximately $5,000,000. A salesforce of 20 men, some paid straight salaries and others commissions, sold to jobbers and did missionary work with retailers. The company's distribution was primarily through independent retailers and small chains. Practically no newspaper, magazine, or radio advertising was used, and the company relied almost exclusively on dealer and consumer premiums for promotion of its products. In 1953, after several years of comparatively unsuccessful consumer premium offers, the question was raised by a sales executive whether this method of promotion was losing its effectiveness, and how the company could continue profitably to compete with large soap manufacturers who spent huge sums on advertising to consumers.

Dealer or trade premiums had been offered by the company to jobbers' salesmen and retailers for many years. Virtually all the Tepper Soap Company's advertising budget, which amounted to about $40,000, was used for premiums. This was a small appropriation in an industry characterized by extensive advertising campaigns. Such producers as Procter and Gamble, Lever Brothers, and Colgate-Palmolive Company with whose products the soap preparations of the Tepper Soap Company competed, utilized all forms of advertising media. The first and last of these companies especially had turned to increased premium merchandising during the depression years and after. This increase in the use of premiums was not confined to the soap industry but was noticeable in other industries manufacturing consumer products, particularly the food industries.

Another marked difference between the Tepper Soap Company and its larger competitors lay in the turnover rate and the product profit margins. The turnover rate for Tepper products was considerably lower than those of nationally advertised brands. A profit, however, of about 8% was sought, as compared with an estimated 3% profit goal by other manufacturers of well-known soaps. Although dealers received greater profit margins on Tepper soap than on nationally advertised brands, that did not always increase sales effort on them.

The company relied heavily on its jobber-salesmen for aggressive promotion of its products and offered merchandise premiums to them as incentives. These premiums included such items as clothing for men, kitchen utensils, children's toys, toilet sets for women, china, camping equipment, blankets, etc. Premiums were

also given to retailers for soap purchases, but the dealer had the option of refusing the premium in lieu of a lower price quotation. These dealer premiums might be kept for their own use, offered as a prize to customers bringing in the most wrappers in a month, or sold for an extra profit. A typical premium offered free to retailers with the purchase of one case of 100's of a toilet soap was a rose glass beverage set, consisting of an 80-ounce pitcher, and six iced tea glasses.

Because of its limited budget, the Tepper Soap Company could not engage in any extensive advertising; certain types of consumer premium plans were, therefore, peculiarly well adapted to its needs. Premiums were used primarily on Tepper toilet soaps, whose prices were usually from one to two cents lower than those on such leading brands as Palmolive, Lifebuoy, and Lux, and on other products as they seemed to require promotion. Premiums were customarily distributed through retailers to consumers for the purchase of a specified quantity of the soap or soap preparation. For example, a six-inch Vitrock utility bowl for mixing, refrigerator, or serving use, was given free with a purchase of a large size package of a soap powder selling for 25 cents; two jade colored glass tumblers were given with the purchase of two cakes of toilet soap at a special price of 17 cents; a washcloth was packed in a special carton of four cakes of toilet soap for 29 cents. These premiums were not, with the exception of the last example, nationally advertised products. The price was in some cases suggested by the company; in other cases the retailer set the price. Posters advertising these offers were supplied to retailers by the company.

Premiums appeared to executives to be the most desirable form of promotion for the company, and the types described above to be the most advantageous. By using premiums a definite sum for promotion could be set aside for each gross of soap, and the ratio of expense to sales thus predetermined would not change, whereas newspaper, magazine, and radio advertising expenditures had to be made without any knowledge of what sales might result, and thus what the relation of advertising expense to sales would be. By using types of offers which provided for dealer distribution of premiums, the company was relieved of handling cash and/or wrappers, and incurred no packing or shipping expense to consumers.

The company had, however, used plans which required the return of a certain number of soap wrappers to its home office for a premium or premiums listed on the wrappers. Wrappers were usually slow in being mailed in, sometimes being received years after the offer was made, not only because jobbers' and dealers' stocks were not quickly exhausted, but also because consumers delayed their mailings. A pair of gold plated scissors for the return of three wrappers and 25 cents exemplifies another type of offer to customers.

Premiums were not pretested for their sales appeal because there was no substantial investment in premiums at any one time, nor was any expensive publicity prepared which would be wasted if the premium proved unpopular. If the premium did not draw well it was discontinued; premiums were usually used for about three months.

The premium method, while having some advantages for the Tepper Soap Company, handicapped it in seeking outlets through large buyers and chain stores. These purchasers frequently insisted that manufacturers advertise in local newspapers, or use local radio spot announcements, as prerequisites for handling their products. In instances where the Tepper company wanted distribution through these outlets it was forced to accede to these demands for local advertising.

The company had experimented unsuccessfully with newspaper advertising on a new product, a box of soap flakes, retailing from 17 to 35 cents. The area chosen for experimentation was, roughly, several mid-western states. Approximately $50,000 were spent during a six-month period in radio and newspaper advertis-

ing, supplemented by eight specialty men working with retailers. At the end of the period expected sales had not materialized, and a loss of $25,000 had been incurred on the promotion. Despite the failure of this plan, the sales manager did not believe it was impracticable for other products in the company's line under certain circumstances. Not only was the soap flake market unusually competitive, but margins were smaller than on other products, and a six-month advertising campaign he thought too short to impress thoroughly upon the consumer the product's name and virtues, an objective which might well require a two-year or three-year campaign.

Recently consumer premiums for household use began to use their strength as buying appeals for Tepper products. The assistant sales manager believed that housewives were becoming shrewder buyers; that they were not so liable to be induced to purchase products because of premiums. Furthermore, he believed that little could be done by the Tepper Soap Company to offset the extensive advertising by its large competitors. That continuous, widespread advertising, he believed, so impressed housewives that upon entering a store they did not bother to discriminate between brands but, ignoring the cent or two lower price of Tepper soaps, asked for Lux, Camay, or some other brand, whose names had been made familiar by advertising repetition.

3. The Halsey Textile Machinery Corporation was one of the large manufacturers of machinery for the spinning of threads and twine from all sorts of raw fibers. The main plant and sales office were located at Boston, Massachusetts, but there were eight branch sales offices in various parts of the United States, besides agencies in many countries throughout the world. Sales were made directly to textile mills and to manufacturers of yarn and twine. The salesmen worked directly out of the sales offices and were as a rule engineers who understood the machines and their performance thoroughly. Instead of the usual method of making sales calls, these representatives spent considerable time at their customers' mills in working out problems, in checking the performance of machines, and in making recommendations.

Early in 1951, the sales manager was solicited by the Munro organization of Philadelphia relative to taking space in the International Textile Exposition, which was an exhibit of textile machinery, products, mill supplies, and equipment for the textile industry of the world. Practically every branch of the textile industry was represented at this exposition. Its attendance was composed of mill owners, factory heads, superintendents, buyers, and employees. The exposition was held biennially in conjunction with the National Power Show. Each space in this exhibit averaged about 100 square feet, being about 10 feet on a side, and was rented for $250 to each exhibitor. The rental included furniture, floor covering, railing, and a sign. The sales manager of the Halsey Textile Machinery Corporation thought that, because of the size of his machinery and its variety, at least $2,000 worth of space would be needed. To this expenditure it would be necessary to add probably another $1,500 for other expenses, such as cartage, setting up, and operating the exhibit.

The exposition appealed to all those engaged in the textile business, and invitations were sent out to all those who might be interested. Appeals were not made to any great extent to the general public, but nevertheless a large number of consumers attended. Mills from all parts of the country sent their representatives to the exposition, and as a rule the National Association of Cotton Manufacturers held its annual meeting at this time. Frequently also the American Association of Cotton Manufacturers followed this example and convened likewise at this time. The size of the attendance at this exposition was not so important as its selectivity. A display in this exposition would place the products of the exhibiting company before the eyes of those who might be interested in purchasing the products.

Should the Halsey Textile Machinery Corporation rent space in the International Textile Exposition?

4. The Cromwell Company, a large manufacturer of radio and telephone receiving sets, spent in excess of $1,000,000 annually for cooperative advertising. Allocation of this fund was accomplished by allowing distributors a "cooperative advertising credit" of from 2% to 4% of the value of all sets purchased, the percentage varying directly with the cost of the radio. In order to promote future buying of Cromwell radios, distributors were allowed a credit of 4½% on all orders placed with the company before its annual convention in July. Each distributor was given the responsibility of distributing his share of the cooperative advertising appropriation. In determining the amount to be allowed each dealer, distributors took into consideration the competitive situation in an area, potential volume, willingness of the dealer to cooperate, past experience, and the nature and type of media available. A dealer was not permitted to use any form of cooperative advertising without first securing written permission from his distributor. Upon the completion of a cooperative campaign, each dealer paid the entire cost and submitted a receipted bill to the distributor who, in turn, remitted half the amount to the dealer. The bill was then forwarded to the Cromwell home office where a credit was made against the distributor's advertising allotment. If the dealer, in order to meet special competitive conditions, wished to employ a form of advertising not covered by the company's cooperative plan, the distributor in the area was required to obtain special permission from the home office. Recently a member of the sales department has been asked to prepare a statement of standard procedure for the guidance of distributors in conducting these activities.

What should it contain?

5. Should a manufacturer who processes and packages spices, including prepared mustard, undertake a series of manuals for grocers relating to accounting, display, stock keeping, buying personnel, and other phases of grocery operations, to be given to grocery dealers as a means of creating good will? Should a shoe company selling a full line of men's shoes adopt a similar plan?

6. Should a manufacturer of novelties plan to have his products exhibited at some annual gift show? What considerations would determine his decision? How do the factors influencing the decision in this instance differ from those which might influence a manufacturer of motor boats who has been solicited to exhibit in the annual motor boat show in New York?

7. Should a manufacturer of surgical dressings and similar articles sold at popular prices accept the offer of a voluntary association of drug stores in the Middle West to feature the company's product by devoting a window to display in each store of the chain in return for a 10% commission to be paid in free goods upon orders placed during the month in which the goods were to be displayed?

8. Should a manufacturer who is trying to introduce a new food product purchase from a chain store executive the right to have his goods displayed in the windows and upon the counters of a prominent chain for a specified period?

9. Should a manufacturer of heating and ventilating equipment set up a program for the training of heating contractors and their employees so that they may sell products more effectively?

10. What problems would be encountered by an automobile manufacturer who is endeavoring to improve the level of salesmanship exercised by retailers' salesmen?

11. Should a manufacturer of one of the popular lines of cosmetics charge drug stores for window displays?

12. Is it necessary for a manufacturer of medium-price furniture to rent display space to exhibit his products each season in Grand Rapids and in the Furniture Mart in Chicago?

13. A shoe manufacturer has found it helpful to his dealers to ask for annual statements of operations. These statements are studied critically and returned with suggestions for improvements in management to the managers of the various stores.

Would a company manufacturing lawn mowers find this a profitable and effective means of dealer help for the hardware stores through which its product is sold? Would your answer be the same for a manufacturer of a complete line of paints and varnishes?

14. If the firms or government bodies which constitute the principal market of a product customarily or always purchase on a competitive bid basis, what can a selling program contribute to increase the volume or stability of sales results?

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7. *Sales Organization*

In all the previous discussions, the existence and functioning of the sales organization have been taken for granted. More detailed discussion of the problems of organizing the sales operation has been postponed until some understanding of the nature and types of work which a sales organization is expected to perform should have been obtained. Any sales organization should be justified by reference to the tasks to be accomplished and the objectives to be achieved.

Any organization consists of persons in more or less definite relationships to each other for the purpose of coordinating the efforts of the members of the group to bring about a desirable result. A sales department, therefore, consists of human beings working together to accomplish the marketing of products manufactured by the company or the commodities which have been purchased for resale. Broadly viewed, the functions of the sales department should include all those necessary to market the product after the manufacturing or buying departments have relinquished their control. The sales department includes among its functions particularly the selling functions comprising both the preliminary effort necessary to consumer acceptance, recognition, or demand, and the actual selling operations which are directed toward the consummation of sales transactions. The selling for which the sales department is responsible may be subdivided according to the territories over which operations extend into domestic and export; it may be further divided within each as, for instance, eastern, western, southern, and Pacific divisions.

The second group of functions of the sales department is connected specifically with the physical supply of goods, including such operations as packing, shipping, and storage. While the selling function, at least in part, is always included in the sales department, there is a variety of practice among enterprises as to the inclusion of packing, shipping, and storage. In the group of miscellaneous functions may be mentioned the credit function, sometimes within the purview of the sales department, frequently having more to do with the financial or control departments of the business. More commonly, control and planning groups for sales, such as sales research, sales control, and sales statistics departments, have been incorporated into the sales organization.

Any sales organization must be adapted to the enterprise, because the job

which is to be performed differs in some degree in each enterprise. Before the sales department can be developed, certain decisions must necessarily be made by the executives which will have effect upon the form of the department and the size of the personnel. Roughly, the structure of any sales department will depend chiefly upon the following factors:

1. Personalities of executives.
2. Nature and size of the enterprise.
3. The number and buying habits of purchasers.
4. The method of selling adopted.
5. Selling policies.
6. The financial conditions of the enterprise which in turn may govern the choice of policies and methods.

The sales organization should be built and adjusted to the work it is to perform and to the method of performing it; it should be explainable in terms of work to be done, in terms of policies which have been adopted after thoughtful consideration, and in terms of selling methods which have been carefully selected to bring about the most effective and economical distribution; and it must be sufficiently flexible so that it can take care of changes in the amount of work which it has to do that cannot be anticipated with accuracy. But these are not sufficient for an effective organization. One must add still another, and often a determining, factor, that is, the personal factor, the personality of executives and of those in authority. Many organizations which apparently violate all the principles of good organization operate successfully because of the influence of capable executives and dominant personalities, and many organizations are unsuccessful because the personnel or leadership is incapable. One must always make the mental reservation, in speaking of an organization, that the personal equation is of great importance. But the conclusion is inevitable that as a means of accomplishing certain tasks, in the absence of exceptional abilities and personalities, the more logical the organization, the greater the ease with which the work should be completed.

The war period was a difficult one for sales organizations. Some firms found themselves producing entirely for the war market. Others found themselves producing partly for the war effort and partly for the civilian market. Many firms not producing for war purposes, nevertheless lacked materials to make customary products, or at least to make them in the usual or wanted quantities. Few enterprises were not directly affected by labor, material, and equipment shortages. Therefore, the nature of the sales task changed considerably; the nature of the sales organizational problems confronting sales managers varied widely. Only in unusual cases was the task of selling as difficult as it had been in the prewar period. As the war proceeded, selling was superseded in many cases by allotment, and buyers took

the initiative to a degree which "softened" salesforces immeasurably. Furthermore, many salesforces, consisting of younger men, were decimated by the demands for war service.

Wise sales managers and wise top managements generally recognized that the sellers' market and its attendant decline in the amount of selling effort would be temporary. The prudent sales executive could not wisely stake his firm's future on long continuance of a sellers' market. Few expected that it would last two or more years after the cessation of hostilities. Consequently, they took various steps to prepare themselves for the resumption of a buyers' market. Some few firms had disbanded their salesforces and, together with others who had lost portions of the sales organization, prepared to recruit and train new men. Where no selling work was to be done and no deliveries of civilian products could be made, firms attempted to conserve such salesforces as they had by assigning them to production work, to contract negotiations work with government, to expediting purchases of scarce materials, and other duties where suitable. Many more firms consolidated territories and attempted to maintain the relationships with civilian buyers by having salesmen handle allotments where necessary and occasionally by making use of shortages to attempt upgrading of middlemen, etc. Recognizing the need for rebuilding salesforces and for training and retraining of salesmen, some sales executives began immediately to plan and to carry out plans for meeting more difficult selling conditions. Success appears to have been the exception rather than the rule, even among foresighted executives. The adjustment of sales organizations to a buyers' market proved to have presented more psychological hurdles than were anticipated. The problems of that adjustment are still with many sales managers and will continue to be with them for some time to come.

In the years just preceding World War II, scientific interest in the nonlogical influences upon organization had grown rapidly. It was recognized that the nature and complexity of human relationships had not taken sufficient account of the existence of informal leadership in an organization or of emotional reactions which may have their basis outside the enterprise as well as within it. The pleasant simplicity of the organization chart was being destroyed; that chart and its simple rules relative to authority, responsibility, and control were too often found inadequate when confronted with actual organization behavior. Furthermore, while the influence of morale had long been recognized by competent sales executives, perhaps even more fully than by executives of other divisions of business enterprise, we needed to expand our understanding of the complex influences creating morale. Newer developments growing out of the studies of human relations, together with developing postwar economies and social pressures for more effective selling, have made it more necessary than ever for the sales execu-

tive to bring to bear upon his operation all the resources that experience and scientific investigation can furnish.

A. SALES ORGANIZATIONS; HEADQUARTERS SALES ORGANIZATION; DEPARTMENTIZATION

Sales organizations vary from simple ones, in which a few salesmen report to a general executive, to those in which the sales organization is a complex of suborganizations based upon divisions according to territory, product, and marketing function. The first type is illustrated by an organization in which a salesman reports directly to the sales manager or to his assistant in the home office. The most complex is illustrated by one large manufacturing company in which the attempt is made through the organization to provide adequate research, planning, and execution for the sale of products which reach several hundred different markets and which range from huge power installations to electric irons and lamp bulbs.

As the job of a sales organization grows larger, it becomes necessary to divide responsibility. This division may apply only to the headquarters office. One finds that advertising functions are likely to be split off and made the responsibility of some individual or group. Sales planning or warehousing of stocks may be assigned to separate individuals. Again, the nature and the type of division will depend in part upon the relationship between the tasks and the availability of persons to perform those tasks.

Departmentization within the home office organization may be based upon a division of work according to function, such as advertising or personal selling, upon types of customers, such as wholesale manager, retail manager, chain store representative; upon territory; or upon the basis of product. The advantages and limitations of specialization which come up even in elementary discussions of organization or economics of production apply with equal force to departmentization of salesforce.

The need of leadership in any group of individuals aiming to accomplish a single purpose is generally acknowledged. In business organizations, the leadership of the directing heads of the enterprise furnishes the general policies and purposes within which the sales department must function. Nevertheless, these limits are broad, and the chief sales executive finds opportunity to exercise his ability in bringing about the profitable distribution of the product. The chief sales executive is the man who is, and should be, responsible for the continuous and successful marketing of the product of the business. It is evident that, without continuous and successful marketing, production or other departments of the business enterprise cannot function smoothly.

Since in practice there is no uniform conception of the scope of sales

work, there can be no uniform conception of the function of the chief sales executive. In the broader sense, the chief sales executive is a marketing manager, the person who is responsible for formulating and carrying out the plans for marketing the product; he is both a planning and an operating official. He must possess the general qualifications of a good executive; he must have judgment and initiative; he must be aggressive. Since the sales manager must lead men, since the success of the work depends largely upon his ability to establish an *esprit de corps*, since morale must take the place, in large measure, of personal supervision, the elements of personality, tact, and ability in dealing with men are even more necessary than they are in production management.

The officials of a large sales department immediately subordinate to the chief sales executive may be classified as (1) general, where the junior executives act as assistants to the sales manager under assignments, the division of work being made upon any basis which seems to be suitable at the specific time; (2) functional, where the immediate subordinates are given charge of particular phases of sales work, such as research, sales promotion, personnel records, credits, house organs, advertising; (3) territorial, where the junior sales executives are given charge of sales work in portions of the territory over which the marketing operations of the company extend; and (4) product, where the junior executives are given charge of sales work for particular products or lines sold by the concern. The executives who carry on their work at the home office, therefore, have widely varying duties and titles. Such titles as assistant general sales manager, assistant sales manager, territorial manager, product sales manager, sales research manager, all reflect the manifold differences in sales departments.

66. THE STANDARD OIL COMPANY (OHIO). Sales Organization

The Standard Oil Company (Ohio) was the dominant refiner and marketer of petroleum products in the state of Ohio. Gasoline was its most important product, but the company also sold motor oils, industrial oils and greases, kerosene, fuel oil, asphalt, liquid petroleum gas and various specialities to the public and to commercial and industrial users.

Standard Oil marketed a record volume of 1.7 billion gallons of petroleum products in 1951, a figure 7% larger than that for the preceding year. Total income from sales, operations, and miscellaneous sources amounted to $276,163,036.

The company's "X-tane" and "Sohio Supreme" brands of gasoline were sold through 4,470 retail outlets in the summer of 1952; 338 were company-owned and operated; 632 were company-owned but rented to private operators; and 3,500 were operated and owned by independent dealers. The function of supplying these outlets was performed by the company. Dis-

tributors, usually one-man operators, worked out of Standard Oil bulk stations and sold on a commission basis principally to farmers.

Gasoline consumption in Ohio had increased from 1,400 million gallons in 1940 to 2,269 million gallons in 1951 (Exhibit 1). Sales of Sohio branded gasoline rose from 320 million to 662 million gallons during the same period, giving the company 22.5% and 29.1% of the Ohio market. The nearest competitor had a market share of nearly 9% (Exhibit 2). Sohio's sales in 1951 were up over the total for 1950 by slightly more than the 5.44% increase in state consumption. Five other oil companies had greater percentage gains.

Standard Oil had two marketing subsidiaries, the Canfield Oil Company and the Fleet-Wing Company. Canfield sold 19 million gallons of gasoline in 1951 through jobbers and independent dealers. Canfield products were sold almost entirely in Ohio in 1952, and Sohio branded products were sold only in that state. Of Fleet-Wing's 1951 sales of 74 million gallons 80% was made in Ohio, the remainder in near-by states. Fleet-Wing sold gasoline, fuel oil and lubricating oil through jobbers who, in turn, sold either at retail through their own service stations or to other dealers.

Sohio sold 86 million gallons of unbranded gasoline to other marketers in

Exhibit 1. THE STANDARD OIL COMPANY (OHIO)

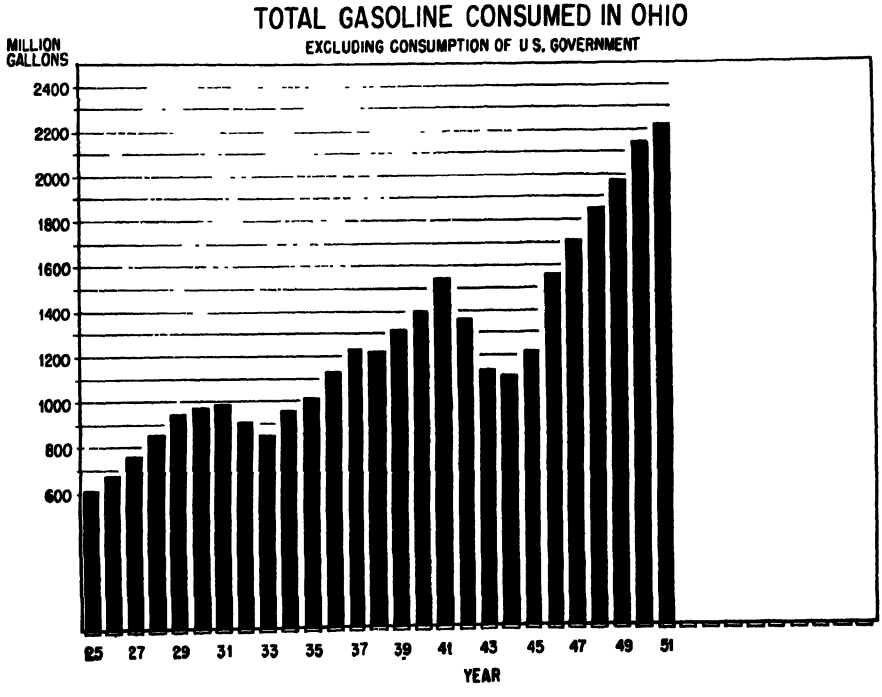
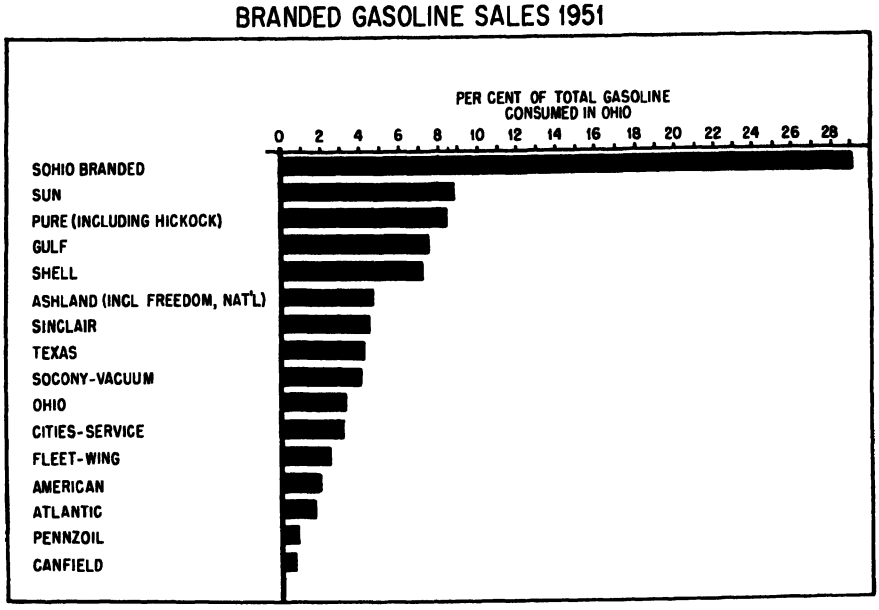


Exhibit 2. The Standard Oil Company (Ohio)



1951, which brought the company's total of branded and unbranded gallons to 840 million for the year.

Historical Background. The Standard Oil Company, an Ohio corporation, was the original company by that name. Founded in 1870 by John D. Rockefeller, it started as a refiner and bulk petroleum marketing organization, and later expanded and established subsidiary Standard Oil companies in other states. Stocks of subsidiaries were held in a trust for control purposes until 1899 when The Standard Oil Company of New Jersey became the holding company for the affiliates.

An antitrust suit filed by the government in 1910 resulted in the forced dissolution of the New Jersey company into its 34-member parts, each of which was required to be independent of the others. Thus, The Standard Oil Company (Ohio) found itself in 1911 with its marketing organization, one small refinery, and no other assets. For many years thereafter, it operated primarily as a wholesaler of gasoline and oil products in Ohio.

Up to 1928, Standard had set its gasoline prices on the basis of its own costs with the result that prices generally were higher than those of its competitors. This caused the company to suffer a marked decline in its percentage share of the market. In 1928, most of the principal members of the board of directors and chief executives retired, and a new management took over. W. T. Holliday, who had been the firm's general counsel, be-

came president and launched a program to attain a greater sales volume at competitive prices.

The emphasis in the new sales program was centered on merchandising, consumer service, more aggressive advertising and selling. The trade name, "Sohio," was adopted, trucks and service stations were made more attractive, and pay scales were raised to make it possible for the company to hire a higher caliber of salesman. In 1929, sales had increased considerably and the company was selling a higher percentage of the more profitable premium grade gasoline.

Refining and Production Facilities. In 1927, the company refined little of its own gasoline. In the next few years, however, refining facilities were rapidly expanded in an effort to reduce costs, and starting in 1932, the company refined all the gasoline that it sold. In the period from 1946 to 1951, inclusive, a total of $52 million was invested in new refinery equipment which made possible a 35% increase in crude oil processing capacity.

Along with the program of refinery expansion, the company acquired pipelines from its main sources of supply to its refineries. More recently, it had participated with others in the ownership of large diameter pipelines which moved crude oil from the oil fields of the Southwest.

Sohio had not engaged in extraction of crude oil until 1942 when an extensive program of exploration and drilling for oil was started. In 1949, the company produced 35% of its crude oil requirements. Subsequent rapid increases in those requirements reduced the figure to about 27% in 1951.

In 1952, the company was actively engaged in exploratory and developmental drilling in Louisiana, Oklahoma, Texas, and the province of Saskatchewan, Canada.

In the six-year period since 1945, the company spent $182,168,000 for expansion and modernization. Of the $38 million spent for such purposes in 1951, $21.4 million went for oil wells, leases and other production facilities; $9.3 million for refining facilities; $6.2 million for service stations, tank trucks and other marketing equipment; and $1.2 million for transportation facilities such as pipelines and terminals.

Vice President in Charge of Sales. The vice president in charge of sales was the principal marketing executive. As head of the marketing department, his responsibilities included checking the performance of his various sales organizations through the study of periodic reports and discussions with division managers and other executives. He approved all major capital expenditures for his department, and also made decisions on purchasing new service station locations.

Problems with which he was concerned in 1952 included strengthening the organizational structure of the sales department, determining product policy on the octane rating of gasoline, working out a plan for adequately staffing the company's service stations in the face of a serious manpower

shortage, and developing better marketing cost data control purposes.

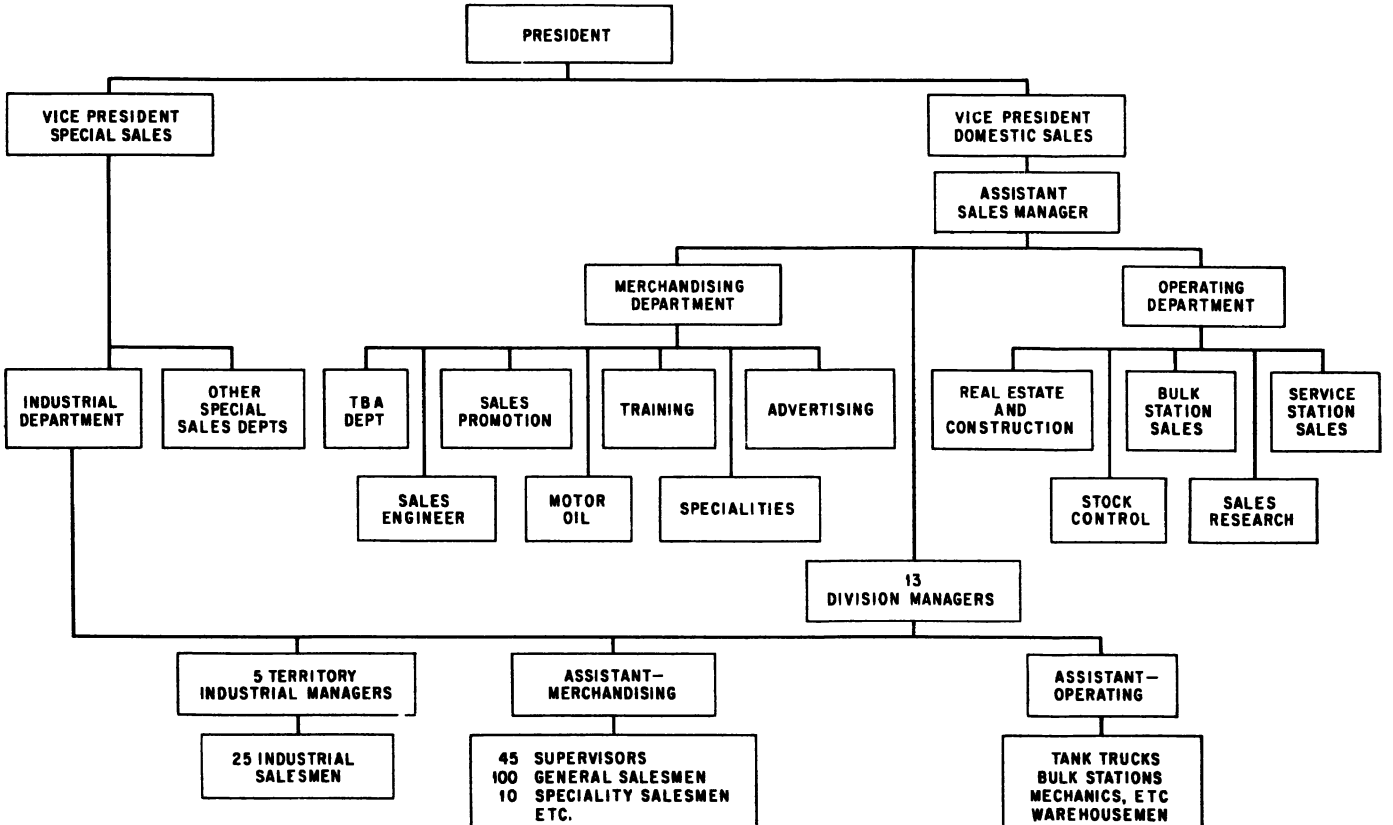
As a member of the board of directors, the vice president was concerned with company-wide problems as well as those within his own field of sales. A considerable amount of time was spent in public relations and public service work. Speeches to civic and professional groups were included in his program of activities. He spent much time attending trade meetings, reading trade journals and conferring with various people in order to keep up on developments in the oil industry.

Changes in Organization. Both in headquarters sales organization as well as organization in the field, many changes and modifications had occurred during the quarter century preceding 1952. In the latter half of the thirties with the rapid growth of the company and the stress and strain of depression years, further effort was made to get effective decentralization. The new marketing structure set up in 1935 (Exhibit 3) had not operated as effectively as desired for several reasons. The domestic sales manager was still isolated from the division by the assistant sales manager and the new home office staffs were reluctant to relinquish their former line authority and took an active part in the direction of routine operations. Furthermore, the division managers did not assume authority and responsibility without being constantly checked by home office representatives. This situation not only encouraged home office personnel to retain line responsibilities, but handicapped division managers through frequent personal visits and interference by directives. The vice president in charge of domestic sales, in an attempt to remedy these defects, issued a directive which, in addition to changing the home office staff arrangement, defined more clearly the function and responsibility of the division manager. The changes and instructions set forth were as follows:

1. The job of assistant sales manager was eliminated.
2. The division managers were charged with full responsibility and authority to do the job within the established framework of company policy except for specific, specialized functions performed by the home office.
3. The operating-merchandising structure in the home office was revised to include four staff departments acting in an advisory capacity to the domestic vice president and division managers by providing the following services: (a) supply specialized and technical helps, (b) handle home office routine matters, (c) recommend management controls where state-wide coordination was necessary, (d) handle research planning and analysis, and (e) provide controls for long-term commitments. These departments were called Merchandising, Operating, Research and Planning, and Real Estate and Construction.[1]

[1] Under the new organization those functions which were found to be performed better by specialists were made the responsibility of the home office staff departments while those which were concerned directly with delivering the products to the customer

Exhibit 3. THE STANDARD OIL COMPANY (OHIO). Sales Department Organization. 1935



This decentralized form of management began to operate efficiently as soon as division managers understood the logic of the staff function as compared with the conflicting activities of the bulk and service station departments. By having product specialists in a merchandising staff department, management believed that it made available to divisions the maximum product information and "know-how"; similarly, a staff operating department, functioning as the merchandising department with an "authority of ideas," facilitated speedy decisions and prompt action unobtainable through a line department operating with insulating and delaying authority.

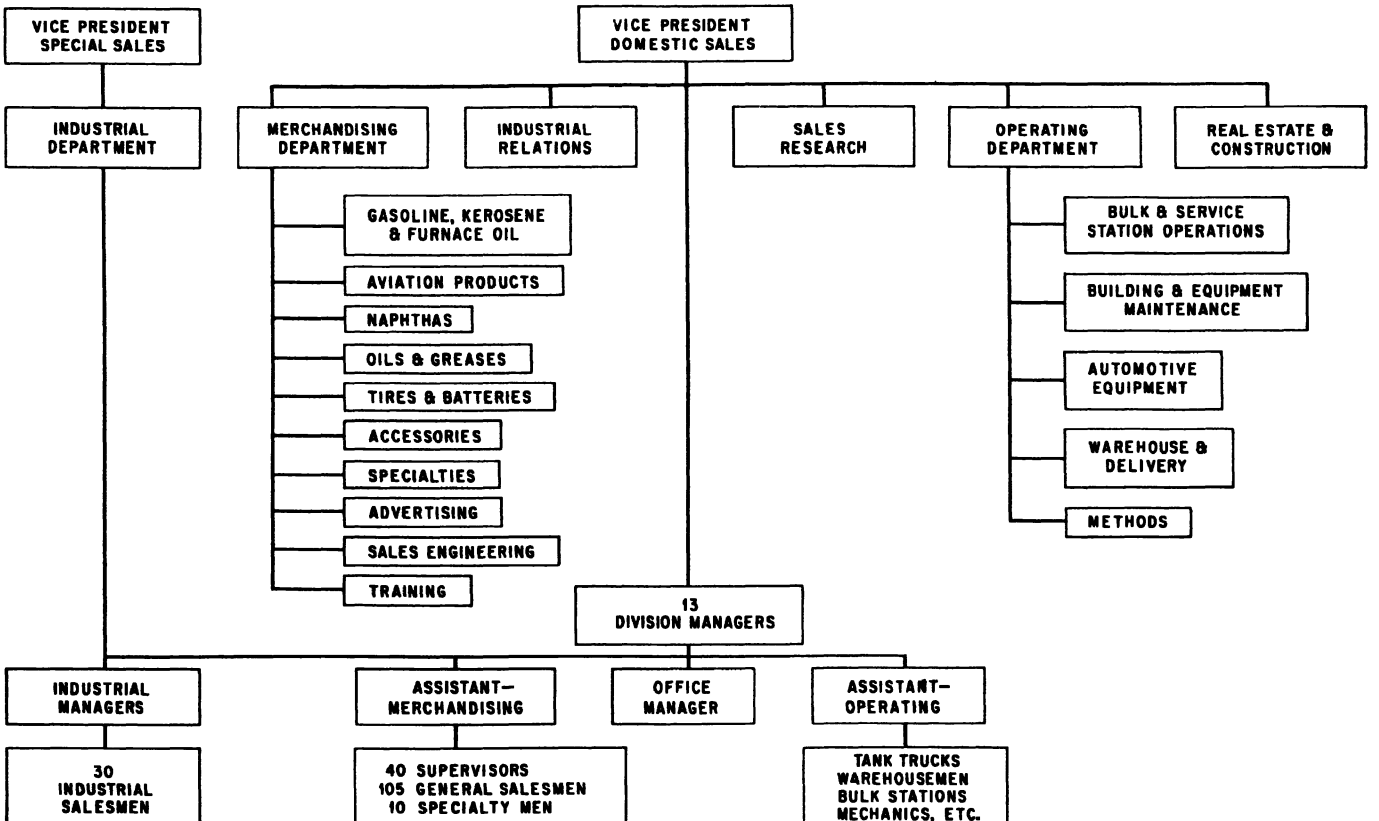
Although in February, 1947, The Standard Oil Company's sales department maintained the same type of organization, having undergone minor changes in the number and functions of staff departments (see Exhibit 4), many problems had arisen during the previous decade which at that time defied a satisfactory solution. There were several functions of the operating and merchandising staff groups which, although easily segregated at the home office level, became interrelated at the point of actual operation. An operating function in the home office might fall under both the operating and merchandising categories at the division level. Whereas the hiring of service station man power might be an operating job, the question of hiring the right type of men would come under merchandising since the latter controlled station supervisors. Other borderline cases of this type might include the questions of dealer stations as opposed to company-owned, service station housekeeping, dealer equipment, farm equipment, or service station operating expenses. Up to this time, however, the decision as to the proper authority had been made on the basis of the essential nature of the job; if an operating matter with certain merchandising aspects, it was handled by the operating section in the division. A second point of confusion resulted in the tendency for the staff departments in the home office to overemphasize particular functions in their relations with divisions. Consequently, there was

---

were placed under the division manager. A partial list of those services performed by the home office and those which were decentralized under field management follows:

Centralized	*Decentralized*
Policies	Service stations
Pricing	Truck operation
Real estate	Bulk station operation
Construction and major maintenance	Control of salesforce
Capital expenditures	Dealer equipment
Purchasing	Stock ordering
Accounting	Station personnel
Service station design	
Advertising	
Supply of products	
Sales publications	

Exhibit 4. THE STANDARD OIL COMPANY (OHIO). Sales Department Organization. 1947



a need for coordination on the part of the division manager so that such a flow of plans and ideas from the home office would fall into proper perspective upon reaching the merchandising and operating assistants. Division managers generally accepted the majority of these ideas because they had the authority of the home office and seldom attempted to distinguish between those staff plans on which action should or should not be taken.

Finally, management faced two problems which ran counter to its attempt to decentralize the functions of the sales organization. The selling and merchandising of petroleum products were found to be readily adaptable to decentralization for the reason that decisions affecting the consumer had to be made quickly and accurately. Because the sales department was doing a selling job which according to company executives did not require a technical mind, it had the "salesman" type of executive in many operating positions. For this reason, some sales officials doubted whether the company was developing the type of skilled manager who could make necessary decisions at the operating level. Presenting another fundamental problem was the fact that the development of better roads, larger tank trucks, and better pipeline systems led to the delivery of products across division lines. Such a situation tended toward centralized control and coordination by the home office because of the friction arising between divisions.

In February, 1947, the vice president in charge of domestic sales, upon reviewing his department's experiences of the previous two decades, summed up the principles underlying the evolution of its organization in the following words:

> Organization around products is the elemental approach to the sales problem. Management starts with its product and wants to turn it into cash. The simplest approach is to find a specialist who is an authority on the product and the uses to which it may be adapted. This type of organization has the advantage of readily affording a high degree of salesmanship, coupled with technical advice, and functions extremely well so long as the sales problem remains simple.
>
> However, when the sales problem becomes complicated by any of several factors, the primary type of organization invariably begins to fail to meet its requirements, and sooner or later must be modified accordingly.
>
> The primary factors which make the sales problem more complicated usually are:
>
> 1. When the line of products increases and becomes complicated and identical users are prospects for varied products.
> 2. When competition becomes keen and a closer contact must be maintained with each customer.
> 3. When selling must be supplemented by services of one kind or another to support the sales effort.
>
> Confronted with any one of these factors in a substantial degree, the primary organization, which is necessarily centralized, begins to fall down on the job

and is usually modified to meet its new requirements. Personal salesmanship and the ability to control any substantial amount of business through personal influence has its limitations, and is sometimes overemphasized by those who resent organization change. The evolution to meet changing sales requirements involves not only an awareness of the needs of the hour, but a readiness on the part of management to change in order to provide proper flexibility.

Our management has now developed a three-dimensional sales organization:

First Dimension: The product organization.

Second Dimension: The channel organization. As products become numerous and varied and are distributed through various channels, the tendency has been to modify our organization built around products and to reorganize our activities by channels—the service station, the bulk station, including tank wagon deliveries to dealers and consumers, and the sale to jobbers for distribution through their own facilities.

Third Dimension: The functional organization. When it is found that the advertising and sales promotion required for sales through dealers are the same as those for sales through service stations, the tendency is to combine the sales promotion function under one management. Also, when it is discovered that maintenance and repairs at service stations and dealers afford the same problems, it is only common sense to combine these activities under one authority.

It therefore would seem that we have progressed through three stages of management evolution, but such is not the case. We have simply added dimensions to our organization. It is still just as essential as ever that we have a specialist on each line of products who is responsible for the latest ideas in sales promotion and who places these ideas at the disposal of the men on the "firing line." Our problem, when we have reached the third dimension, is to coordinate all these management approaches into one activity. This is done by having a local manager in the field who combines the advantages of all types of organization. It is his responsibility, within the company's policies, to use his local advantages toward maximum achievement for his company.

These are some of the fundamentals that have determined the form and size of the organization:

1. The area under the control of the local coordinating management should be so limited in scope that it can be dominated by the local management. Operations that are homogeneous tend to fall under separate managements. Simple operations, such as sales to jobbers, naturally can cover much more extensive areas than concentrated operations through dealers and service stations. The natural area for such management, however, should be so limited that the manager at all times is in immediate contact with his problems.
2. Such local managers, wherever possible, should report to top management. This, of course, may not be possible where operations are extensive, but since intermediate layers of line management are bound to operate as insulation against the capillarity of ideas traveling between top and bottom management, such layers of management should be at a minimum.

3. Top management should be kept in immediate contact with field management and the assistants to top management should be staff assistants rather than managers.

By the summer of 1949, the organization had grown to such an extent that it became necessary to establish the position of general manager of division sales. Furthermore, the position of the manager of the Fleet-Wing subsidiary who had previously reported directly to the president was changed so that in August, 1949, he began to report to the vice president in charge of sales instead. The manager of the Canfield Oil Company, a recently acquired marketing subsidiary of Standard of Ohio, was likewise required to report to the vice president in charge of sales.[2]

Another major change in 1949 was the elimination of the position of vice president of special sales. In 1947, there had been two vice presidents of sales, one of domestic sales and one of special sales (Exhibit 4). In August, 1949, however, the vice president of special sales died. Subsequently it was decided to eliminate the position instead of appointing a replacement. The reason for making this change was primarily the conflict caused by having 30 industrial salesmen reporting to the vice president of special sales through industrial managers, but actually traveling out of the 13 division offices of the company which were responsible to the division managers and the vice president of domestic sales. The consolidation removed the occasional conflict in the work of salesmen, brought about by the fact that industrial concerns sometimes used both the special products sold by the industrial department as well as the other products which were handled by the domestic sales department.

New Vice President in Charge of Sales. On December 15, 1950, Mr. S. H. Elliott became vice president in charge of sales of The Standard Oil Company (Ohio), succeeding Mr. A. A. Stambaugh who had been elected chairman of the board of directors.

Mr. Elliott assisted in the development of nonpetroleum product merchandising plans in the service station department after joining Sohio in 1929. He was purchasing agent from 1934 to April, 1938, when he was named assistant to the vice president at a time when the company was actively expanding its pipelines. Shortly thereafter he was appointed manager of the pipeline department. In 1943 he became manager of all transportation operations. He was made vice president in charge of the transportation department in 1946 and was elected a director of the company in 1949. He was named general sales manager on September 1, 1950, before becoming vice president in charge of sales.

Mr. Stambaugh had been vice president in charge of domestic sales since

[2] The Fleet-Wing and Canfield companies were marketing subsidiaries of The Standard Oil Company selling principally gasoline and oils through jobbers under their own brands.

1933. Prior to that time he had been assistant to the vice president in charge of sales.

The organization as it existed in the fall of 1950 (Exhibit 5) provided for a new department of general office sales. No head of this activity had been appointed, however, and, as a result, its four sales managers were reporting directly to the vice president in charge of sales as were the general manager of division sales, the manager of Fleet-Wing and LPG (liquefied petroleum gas) sales, the manager of Canfield, the chief of the industrial relations staff, and the chief of the sales research staff.

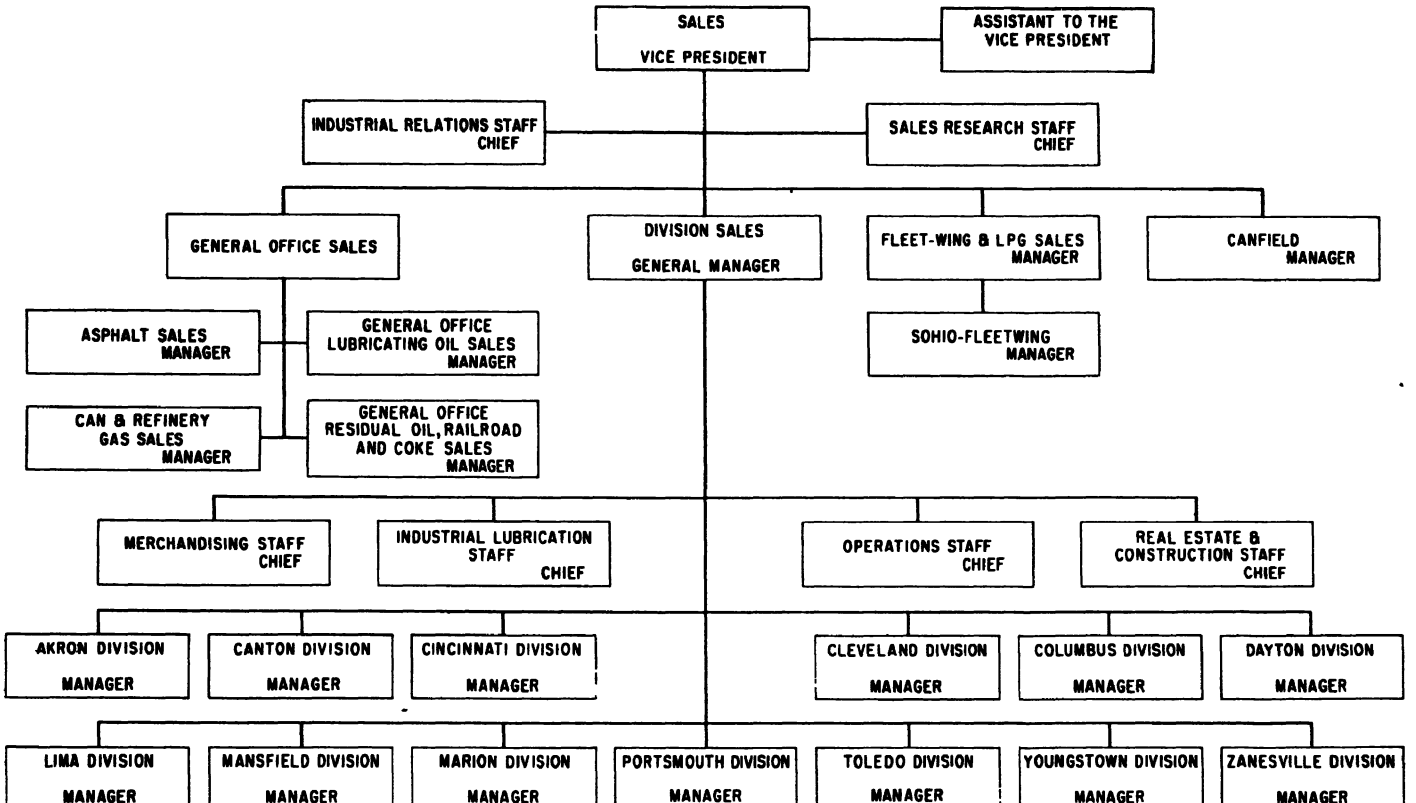
To ease the pressure on the vice president's time, the four sales managers in general office sales, the manager of Fleet-Wing and LPG sales, and the manager of Canfield were directed in 1951 to report to the vice president's special assistant who had been appointed in 1950. Later, the assistant to the vice president was made general manager of division sales, and the former head of division sales was put in charge of general office and subsidiary sales. A new department was created for LPG sales which formerly had been combined with Fleet-Wing; however, the same man continued to manage both activities.

In the past, the vice president in charge of sales had maintained close personal contact with the division sales executives. It had become increasingly difficult to do this on the same scale in recent years, however, as the company's growth added to the complexity of the tasks of the chief sales executive. Accordingly, it was more important than ever that the organizational structure provide for a free flow of information and ideas. There was strong evidence that it was lacking in this respect, however, and in 1951 the vice president was concerned about a lack of effective communication between the home sales office and the field.

Problems in Sales Divisions. The division managers complained of trouble in getting their questions answered promptly in the home office. An important part of the difficulty was attributed to the fact that the staff departments under the general manager of division sales in the home office did not parallel the departments in the sales divisions. Such parallelism had been purposely avoided in an effort to force division managers to assume the responsibilities which would give the company a decentralized management.

The general manager of division sales had staff departments for merchandising, industrial lubrication, operations, and real estate and construction. In the division sales offices, the departments were those of retail sales, consumer sales, office management, distribution, Sohio Heat, and maintenance. Because there was no home office counterpart of the consumer sales manager in a division, the latter had no one man in the home office to whom he could take questions relating to his duties. Instead, he often found it necessary to approach the merchandising chief and the operations chief and perhaps others

Exhibit 5. The Standard Oil Company (Ohio). Sales Department Organization, 1950



on the same matter before it could be satisfactorily handled. Delays in getting replies to requests for information were frequent, according to the complaints of division personnel. Other department managers in the division offices were confronted with the same problem.

One of the division managers spoke on home-office–division communications at the company's annual division managers' conference in September, 1951. Excerpts from his remarks follow:

> . . . One of the most noticeable characteristics of general sales (home office) is its atmosphere of caution. Getting a decision on almost any matter which has to be referred there is a real job. Almost nobody wants to go on record. What will my boss think? What does the book say? As most decisions seem to be made well up toward the top, delays figure in nearly all transactions. Letters are frequently ignored entirely. . . .
>
> No established means of adequate communications between divisions and general sales exists, or, in fact, ever has. It is true that twice each year formal conclaves are held. . . . This September meeting has managed to hold its own pretty well and has always attracted a few top people. Perhaps the Brass are happy to take advantage of this meeting because, in the mad rush these days, it is about their only opportunity to meet division people. . . .
>
> There is a pronounced feeling with some of us that the field has lost contact with its own top people. Our business has more than doubled in the last 10 years, yet you are operating with about the same number of people. . . . The nature as well as the personnel of the hierarchy has changed, increasing this feeling of isolation. One of our employees asks: "Have we gotten too big to attempt or hope to ever regain the team spirit that once existed in our department?"
>
> We know that more business has meant more problems for all of you in the home office as well as ourselves. When I recently inquired why we saw almost nothing of top people in general sales, I was told that our vice president, for one, was functioning at a higher level. That's fine, but how about having a few top general sales people made more available for us? Should not someone with real authority have plenty of time to spend in the divisions? We often feel, when taking matters up with our superiors, that we are imposing on the time of terribly busy men. . . .
>
> There are those who believe the 15th floor (location of the company's marketing department in Midland Building, Cleveland) could be better organized. These point out examples of overlapping responsibilities and illogical assignments. It is thought that you have considerable talent, some of which may be unsuited for present duties, but that mostly it is a matter of distribution, use and breaking a few shackles here and there. I have no desire to follow this thought further than to say that good communications are often contingent upon the elimination of fuzzy, indecisive organization.
>
> General sales staff men have for some years been asked by their bosses to stay away from divisions unless invited to come in. . . . This exceedingly poor advice has given a few the excuse they were looking for, which was to blame

the field for shortcomings in their line. Staff people may be roughly divided into two groups, those who work well with division people, and those who are forever striving to make us over in their image.

Staff people in subordinate capacities are just about the only general sales people we see in the field. The right kind can and do communicate effectively with us. There are those, of course, who seek only confirmation of preconceived notions and prejudices. I am sure any (division) manager is always glad to see those who know what it is all about and bring their tools along. In forbidding capable staff people to visit divisions without being invited, both they and we have been losers. . . .

In a discussion following the above remarks, division managers and the company's top sales executives agreed that further study of the home office organization was needed. They desired a clearer definition of the lines of responsibility, and elimination of the unavailability of home office staff men to calls from the divisions which had contributed to unsatisfactory relations in the past.

In December, 1951, the staff departments under the general manager of division sales in the home office were changed in an effort to improve communications (Exhibit 6). The old merchandising department was divided into three segments: consumer sales, retail sales and advertising. The operations functions relative to retail outlets were transferred from the operating staff to the retail sales staff, and the maintenance functions of operations were transferred to construction, maintenance and real estate, leaving the former operations staff with distribution, automotive and accounting functions. The resulting organization paralleled that in the sales divisions in that the latter had consumer sales, retail sales, distribution, and maintenance departments under the division manager.

A more detailed description, issued by the company, of the new division sales organization, the philosophy behind it, and the duties of various executives is given in Exhibit 7.

The vice president in charge of sales believed that the new form of organization permitted areas of responsibility to be more clearly defined, and that the more logical division of responsibility by function and by channel of sale would result in faster and better decisions and action. He believed that the organization as it had existed in the past several years had helped to build up division managers so that they were much stronger than in the earlier days. It was hoped that they would continue to make decisions themselves on many matters without first referring them to the home office, and that this would permit the successful operation of the new organization without destroying the principle of decentralization.

During the four years after 1951, several changes were made in the organization, the nature of which is indicated in Exhibit 8.

Exhibit 6. THE STANDARD OIL COMPANY (OHIO)

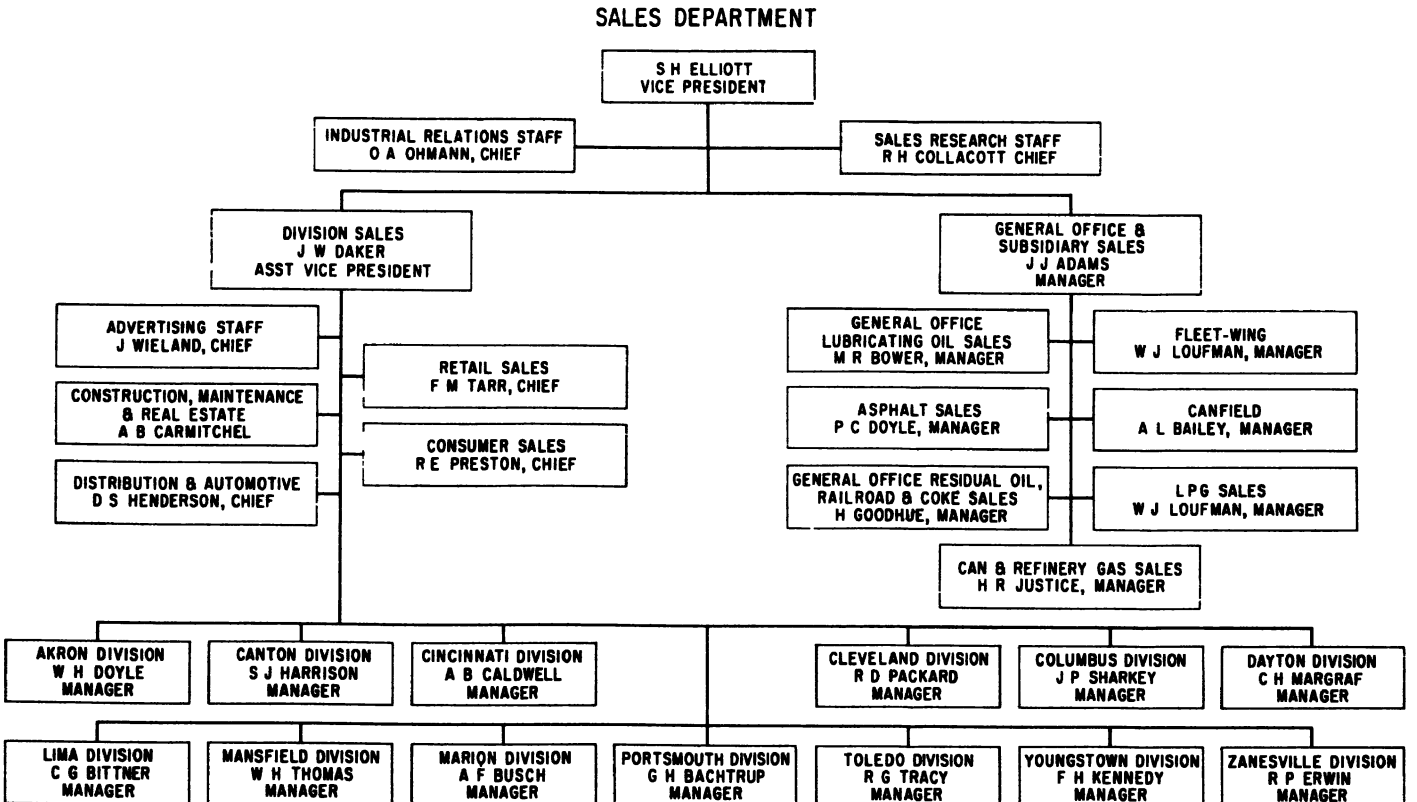


Exhibit 7. The Standard Oil Company (Ohio). Division Sales Organization

1. DIVISION SALES DEPARTMENT BASIC PHILOSOPHY AND PURPOSE

The purpose of the Division Sales Department of The Standard Oil Company (Ohio) is to serve at a profit consumers of petroleum and associated products in the areas in which it markets.

To fulfill this purpose the management of the Division Sales Department will

(a) Make conveniently available products and services of progressively improved quality at competitive prices.
(b) Provide employees with gainful occupations under conditions that offer maximum opportunity for job satisfaction and personal achievement.
(c) Earn the profit necessary to pay a reasonable rate of return to those whose savings are invested in its operations and to assure its continued success.
(d) Conduct the company's affairs so as to be a credit to the communities which it serves.

2. "DIVISION SALES" ORGANIZATION

For the purpose of most effectively performing this job, the Division Sales Department has a decentralized organization functioning on the principle of management by exception. All responsibility and authority, except that specifically withheld, is delegated as close to the point of action as possible and it is incumbent upon each member of the organization to take up with his superior those things which

(a) Deviate from policy or accepted practice.
(b) Need policy formation.
(c) Are centralized at other levels in the organization.

In this way each member of the organization delegates appropriate portions of his responsibility together with appropriate authority for their fulfillment, but does not delegate or relinquish his over-all authority or any portions of his accountability.

3. DECENTRALIZATION

The line of authority runs from the Vice President—Sales to the Manager of Division Sales and directly to the division manager who is charged with the responsibility to do the Division Sales job. Being close to the customers, the division manager has the feel and the understanding of the customer, of the on-the-ground problems and of the community. Decisions must be made in the sales organization as close to the customer as possible and no higher in the organization than where all the factors and information bearing on the problem converge because. (1) speed of decisions and action is highly important, and (2) the man on the ground has the best understanding of all the factors involved and should be able to reach sounder conclusions than remote persons to whom problems and facts must be relayed. Such remoteness and delays lead to lack of understanding, unnecessary effort, waste of time and poor decisions.

The job of the Division Sales Department being decentralized in the thirteen divisions, the division managers have the responsibility and all the authority to perform the sales job in their territories, restricted only by the framework of company policies, approved procedures, and a few functions which remain centralized in the Home Office. A list of the functions and activities centralized in the Home Office for reasons of company-wide coordination, uniformity, the avoidance of duplication, or the providing of a higher degree of technical skill, is as follows:

Policy formation
Pricing
Capital expenditures
Product control and supply
Advertising
Real estate transactions
Construction
Major maintenance
Legal counsel
Accounting
Major purchasing
Contributions
Personnel policy administration
Contractual agreements of $500 or more (excluding sales agreements)

The centralization of these functions does not relieve the divisions of the responsibility for their effective performance, but places on the divisions the responsibility of advising and counseling the line management and staff, keeping them informed and making recommendations relative to these functions.

4. DIVISION SALES DEPARTMENT STAFF

The division managers need much information, assistance and counseling from the Manager of Division Sales who, in turn, needs much assistance in performing his duties of assist-

Exhibit 7. THE STANDARD OIL COMPANY (OHIO). Division Sales Organization *(Continued)*

ing the division managers and the Vice President—Sales. This assistance is provided the Manager of Division Sales in the form of staff assistants. The staff assistants are actuallly an extension of the office of the Manager of Division Sales without line authority but with potential authority of ideas. The division manager must keep the Manager of Division Sales fully informed relative to his problems and accomplishments, but at the same time, in so far as it is possible, he should take up his problems directly with the staff assistant assigned to those areas.

5. STAFF RESPONSIBILITY AND AUTHORITY

The staff man has no line authority outside of his immediate staff and, therefore, the delegation of responsibilities to a staff man seems to create the impossible situation of responsibility for areas of activities outside that staff without any authority. Line authority conveys the right to command, but this right to command is seldom used by a good line manager. An environment must be created that encourages a flow of ideas down through the organization and a capillarity of ideas up through the organization with the result that there is a mutual agreement and understanding of conclusions and decisions which automatically causes their acceptance throughout the organization. Thus the good line man does not manage by the authority of command but rather by the authority of ideas.

Just as the line man should create his authority by the rightness and understanding of ideas, so must the staff man create an authority of ideas. By doing so the good staff man creates an authority as effective and forceful as a good line man. The staff man has staff responsibility assigned to him without any seeming authority to carry out those responsibilities, but the assigned staff responsibilities carry with them the responsibility to create the necessary authority of ideas to effectuate those responsibilities.

It is the staff man's duty and responsibility

(1) To be thoroughly informed and conversant with the entire area of his assignments, to be a source of information, to solve or assist in solving problems, and to be the clearing point for the activities in those areas.
(2) To develop and to propose plans and objectives for those activities.
(3) To observe and evaluate results and to assume the staff responsibility for accomplishments in assigned areas.
(4) To keep management informed and concentrate its attention on the activities, problems and accomplishments in his assigned areas
(5) To advise and make recommendations to line management.
(6) To coordinate his assigned areas of activities with those of other staff units and other departments of the company, to utilize their services and be of maximum assistance to them.

6. THE FORMAL AND INFORMAL ORGANIZATION

Organization charts and general definitions of responsibilities are necessary tools of organization, but they only show the formal positions, the titles and the formal links between them It is not possible to show with these formal tools the actual informal workings of the organization. If desirable, helpful or necessary, there are lines of communications running from each man to every other man on the organization chart. These are fact-finding, persuasion or exchange of ideas communications and carry no line authority. They are permissible and desirable both vertically and horizontally, but when action is to be taken or decisions made, then the formal organizational lines must be informed and used. For example, it is permissible to go around a man and talk with his superior or his subordinate, but only on the basis of an exchange of ideas or information; when action is taken or decisions are made the principal must be consulted and the formal organizational lines followed.

7. LINE AND STAFF UNITS OF THE ORGANIZATION

Manager of Division Sales. The Manager of Division Sales is a line member of management to whom the Vice President—Sales has delegated the authority and responsibility of conducting the sales and operations activities of the thirteen Ohio sales divisions in accordance with approved policies and procedures and the philosophy and purpose of the Sales Department.

Division Manager. The Division Manager is a line member of management to whom the Manager of Division Sales has delegated the authority and responsibility of conducting the sales and operations activities of his division in accordance with approved policies and procedures, the philosophy and purpose of the Sales Department and the several functions remaining centralized in the Home Office.

Exhibit 7. THE STANDARD OIL COMPANY (OHIO). Division Sales Organization (*Continued*)

Manager of Retail Sales Staff. The manager of the Retail Sales staff has the full staff responsibility for the successful and profitable sales through and operation of service stations and dealers, and the development of new sites, in accordance with approved policies and procedures and the philosophy and purpose of the Sales Department. He has the full authority necessary to discharge this responsibility subject only to approved policies and procedures and to the use of and the coordination with other staff units affecting his areas of responsibilities.

Manager of Consumer Sales Staff. The manager of the Consumer Sales staff has the full staff responsibility for the successful and profitable sales to consumers and operations pertaining thereto, in accordance with approved policies and procedures and the philosophy and purpose of the Sales Department. He has the full authority necessary to discharge this responsibility subject only to approved policies and procedures and to the use of and the coordination with other staff units affecting his area of responsibilities.

Manager of Advertising Staff. The manager of the Advertising staff has the full responsibility for effective and profitable mass media advertising and performs staff functions for the division managers and other staff groups by recommending and effectively preparing and advising in the use of sales promotion programs and materials, by preparing and conducting shows and exhibits, by operating the Travel Bureau, and by assisting division managers in their community relations. These activities are to be conducted in accordance with approved policies and procedures and the philosophy and purpose of the Sales Department. He has the full authority necessary to discharge these responsibilities subject only to approved policies and procedures and to the use of and coordination with other staff units affecting his areas of responsibilities.

Manager of Distribution and Automotive Staff. The manager of the Distribution and Automotive staff has the full staff responsibility for the operation of product terminals and bulk plants, the distribution of products therefrom (except by distributors), the procurement and maintenance of automotive equipment, and is the liaison with the Accounting Department on accounting methods, procedures and practices. These activities are to be conducted in accordance with approved policies and procedures and the philosophy and purpose of the Sales Department. He has full authority necessary to discharge these responsibilities subject only to approved policies and procedures and to the use of and coordination with other staff units affecting his areas of responsibilities.

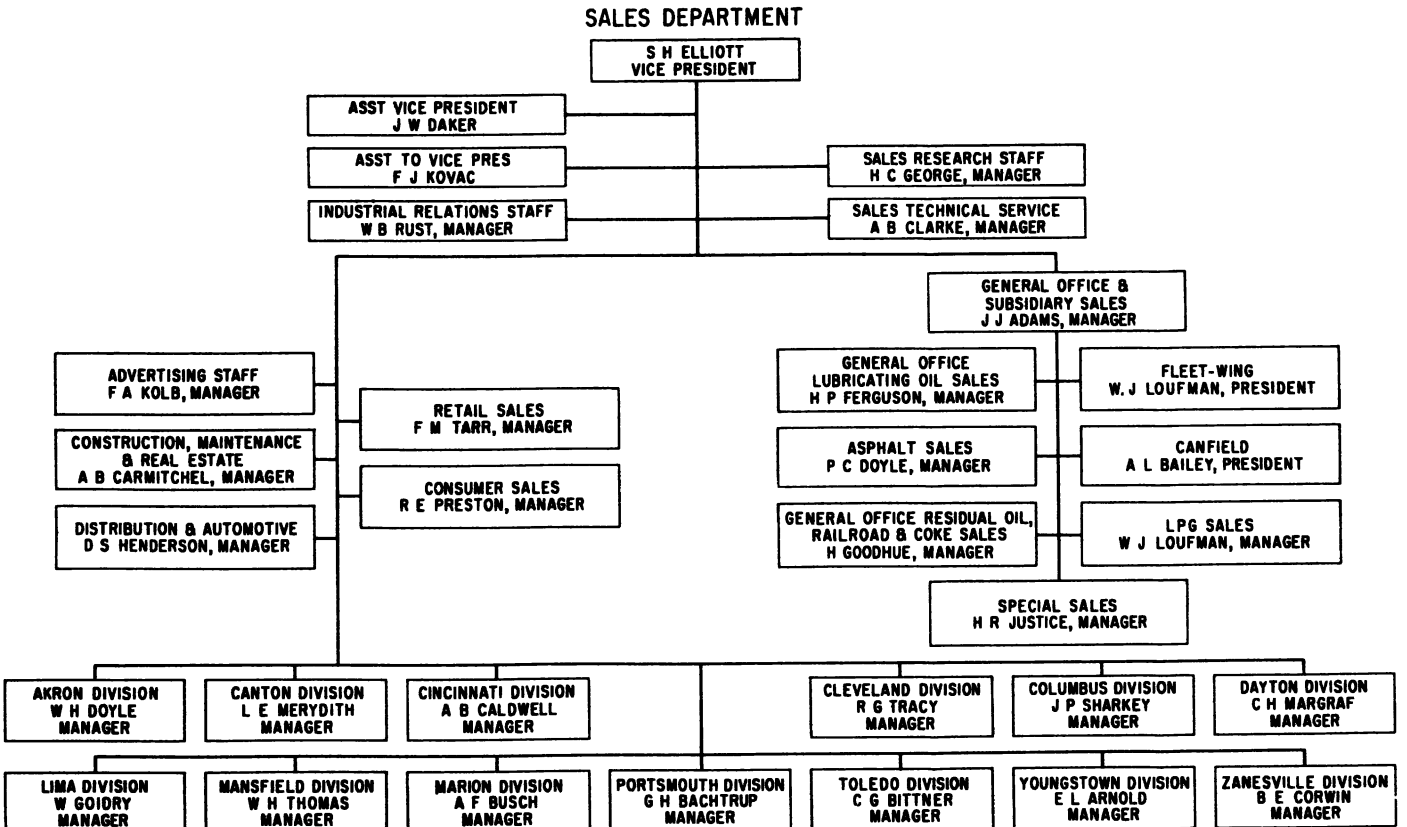
Manager of Construction, Maintenance and Real Estate Staff. The manager of the Construction, Maintenance and Real Estate staff has full responsibility for designing, engineering and obtaining plant facilities as approved for construction or acquisition (buildings and equipment), for acquiring the use of real estate as authorized and has the staff responsibility for properly and effectively maintaining all real estate, buildings and equipment. These activities are to be conducted in accordance with approved policies and procedures and the philosophy and purpose of the Sales Department. He has full authority necessary to discharge these responsibilities subject only to approved policies and procedures and to the use of and coordination with other staff units affecting his areas of responsibilities.

Industrial Relations and Sales Research Staffs. These two staff units report directly to the Vice President—Sales but serve the Manager of Division Sales and his organization. Certain functions are assigned to these staffs but the responsibilities for these functions remain in the Divisions and in the various staff units of the Manager of Division Sales. The services of these staffs are to be fully used in the discharge of those responsibilities.

The Industrial Relations staff has been assigned the additional functions of safety, training and publications.

Sales Research staff has been assigned the coordinating functions relative to capital budgeting and control, expense budgeting and control, and sales forecasting.

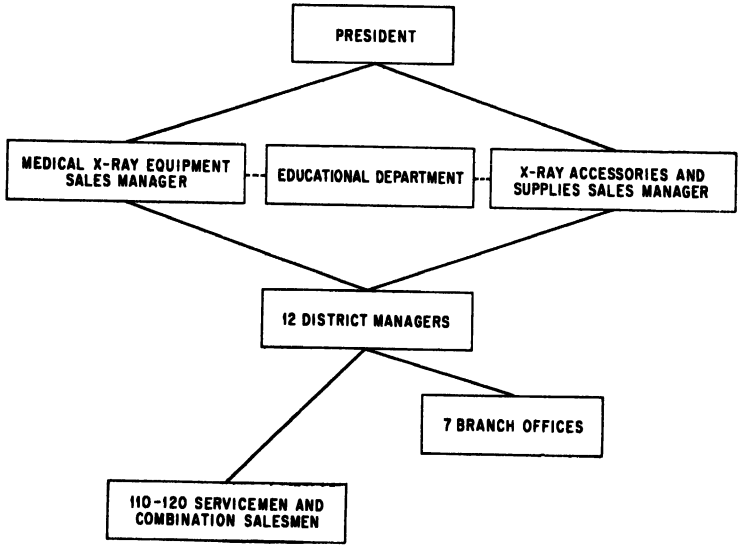
Exhibit 8. The Standard Oil Company (Ohio)



67. PICKER X-RAY CORPORATION. Problems in Reorganizing a Salesforce to Sell a New Industrial Product

During the war years of 1942–1945, the executives of the Picker X-Ray Corporation found themselves gradually entering a new business in an indirect way. Prior to the war the firm was a large producer of medical X-ray equipment, and because of the wide application of the X-ray techniques in war production, especially in locating material flaws at various stages of manufacture, company officials had cooperated with industry and government in producing and selling X-ray machinery to the industrial market. Industrial X-ray equipment during the war had been important because it enabled industries to speed manufacturing processes while maintaining quality control. The demand for this equipment had expanded greatly and comprised a large portion of Picker's total sales volume. However, because of this demand unsolicited orders kept the company's main plant at capacity production, and a minimum salesforce was required. Because the sales organization, up to the close of the war, had only been able to give minimum coverage on its medical accounts owing to the loss of personnel, late in 1945 new men had to be hired. In building this new force, Mr. Harvey Picker, president of the firm, encountered the problem of revamping the selling organization so that it might be able to do the most effective job of distributing industrial X-ray equipment, a problem whose solution was complicated because of the differences between the medical and industrial markets. See Exhibit 1.

Exhibit 1. PICKER X-RAY CORPORATION. Sales Organization Chart



Before 1942 there were two classifications of X-ray equipment sold by the Picker corporation; one included X-ray machines which were priced between $1,000 and $10,000, and the other contained accessories and supplies such as tubes, films, and fluorescent screens. The latter group was purchased from outside manufacturers and comprised the larger portion of the company's sales volume during normal times. All products were sold to hospitals, technicians, and physicians. A third group which had been added at the start of the war included industrial X-ray equipment, and by the fall of 1946 these products were still sold without sales solicitation. During the war, Picker had been responsible for the development of an Army-X-Ray Field Unit, and the sales of this together with industrial production and other government orders accounted for almost 100% of Picker's production.

X-ray machines as applied to industrial processes accomplished a variety of purposes. They were used a great deal by the aircraft industry to locate flaws in material and also in aircraft structures; candy companies used X-ray to check impurities in ingredients; canning firms used it to discover foreign matter in canned foods; and packers could use such machines to detect spoiled citrus fruit. However, the most widespread industrial application was for the inspection of metal castings. Foundries used X-ray to test castings before precision machining, and to check sample castings for such flaws as gas inclusions. If machining operations were performed on imperfect pieces, spoilage costs would be high because of the wasted labor and material expense; through X-ray, cost savings might be realized. Finally, X-ray diffraction machines were used wherever it was desired to obtain an accurate picture of the arrangement of the atoms in any piece of material. They were used by everything from textile manufacturers to metallurgical plants. Steel mills could use another type of X-ray equipment in gauging sheet metal. Mr. Picker expressed the belief that there would be a sizable market for this type of equipment which, within the next few years, would expand provided business firms could be convinced of the advantages.

The Picker X-Ray Corporation handled distribution of equipment and supplies in the United States, while Picker International sold to medical supply dealers abroad. The domestic sales territory over which the company maintained direct control extended from the Mississippi River to the Atlantic Coast, but excluded some states in the southern region. This area was divided into 12 districts, each under the supervision of a district manager, who, although himself a salesman, had charge of salesmen in his district and operated with a large degree of independence. While district managers could not hire and fire except on approval of the home office, they did have the authority to change discounts and to formulate, more or less, their own detailed policies, consulting the sales managers in charge of X-ray equipment and accessories only in cases of doubt concerning pertinent company policy.

In this territory, each district manager had a branch office which carried a supply of equipment and accessories. With very few exceptions, the remainder of the United States west of the Mississippi River and some sections in the Southeast were served by medical X-ray supply dealers. In order to qualify for a Picker franchise, a dealer could not sell competing equipment, but he was given exclusive rights to a territory. A few dealers were surgical supply houses, but most were firms specializing in the sales of X-ray equipment. A dealer was required to perform his own service function, and because the company was very careful in selecting these representatives, it had not thus far experienced any difficulty through a dealer's failure to provide adequate service. Because the franchise was exclusive and a high standard of service was a prerequisite for retaining it, the threat of losing Picker as a source of supply seemed to be sufficient to attract and hold a high type of dealer.

In three states the company used an entirely different system of distribution. In Iowa, Missouri, and upper New York, Picker sold through a total of six dealerships which were 50% owned by the company. Mr. Picker explained that company executives believed partly-owned dealers to be an effective method of distribution for the reason that such company support seemed to promote the most aggressive operation of a distributor while still giving the firm a voice in dealer policy. Furthermore, two principal advantages of the system were: (1) because of the company's part ownership and resulting closer contact of company officials with the distributor's operations, less direct control was required; and (2) because the company was in a position to act as a "big brother" and give the distributor financial assistance in difficult times, the turnover of dealers was reduced and a better coverage of territories was maintained. However, the limiting factor in expanding this type of sales organization was the amount of capital that could be invested to start promising dealerships. Picker executives' philosophy was not to expand the company any further unless by means of profits from present operations, for they did not wish to expand in a capital goods industry to the point where depression years might seriously threaten the firm's financial structure.

The sales organization included a force of salesmen which fluctuated between 110 and 120 men. While in the larger cities and more populated areas where a large quantity of Picker equipment was being used two separate divisions handled sales and service, the majority of all the firm's salesmen were combination men, trained to do both jobs. The average salesman, operating under a district manager, was expected to make between three and six calls per day, although requests for emergency repair might interrupt this schedule. He generally called first on large hospitals, X-ray specialists, and customers with whom the company had already established relations, visiting large accounts once a month, medium accounts every three months, and

smaller customers twice a year. The salesman, when calling on a customer or prospect, had to be prepared to bring the physician or X-ray technician up to date in the matter of techniques, equipment, and developments, in addition to selling a prospect on the advantages of new or additional apparatus. The time required to make one sale often amounted to six or eight months, for orders might run as high as $100,000 and necessitate a great deal of study and deliberation on the part of the customer. A salesman not only had to negotiate with superintendents on such large orders, but might also appear before a hospital's board of directors to present the company's offer and selling points. At the end of each day, he submitted a report on his activities to the home office, and when sales were consummated, he was forwarded a copy of invoices by the billing department.

The existing company policy was to plan territories based on the number of probable customers, but there was some doubt in Mr. Picker's mind as to what was the optimum size. He explained that, as a territory was decreased, a salesman was made more efficient because his travel time was reduced and he was able to visit accounts more often. Compensation was based on straight commission amounting to 5% on accessories and X-ray supplies and 10% on equipment, although the latter was on a sliding scale depending on the trade-in and salvage value of the used equipment. Although the salesforce was being enlarged during the postwar period company executives did not plan to appoint more dealers for two reasons. First, when areas were covered by dealers rather than by company salesmen, Picker lost the benefits of accessory sales which, although they provided a lower profit margin than X-ray equipment, comprised a larger portion of the total sales volume; Picker and all dealers purchased supplies from the same manufacturers. Secondly, the firm did not want to run the danger of establishing a larger number of dealers, for these always offered a threat of loss in the event competitors undertook to win them over.

A Picker salesman required a very high degree of technical training, for all men except those operating in the vicinity of large cities had to service equipment in use in their territories. In obtaining prospective sales and service trainees, the company first set rigid experience qualifications; a man had to have a knowledge of electrical engineering, X-ray application or experience in radio or radar work to qualify for a job. To develop and educate these men to be proficient salesmen, the firm maintained an education department which, in addition to supervising and planning a training program, wrote technical books on X-ray development and technique which were sold to technicians and physicians. All salesmen, whether they were to be combination men or were to specialize in sales or service, were put through a training program which lasted approximately 18 months. The course for X-ray service and salesmen differed only in the fact that servicemen were subjected to a more detailed study of certain technical aspects. A combination

man, however, required a high type of training for, unlike the serviceman, he was not able to telephone the head technician at the local office in the event that he ran into difficulty. The training course outlined by the educational department was designed to teach a man the following things: The basic elements of electricity from an engineering viewpoint, elements of radiation physics, a basic knowledge of anatomy (a salesman was required to know medical terms, the location of major bones and organs and their functions), how to take X-ray pictures including actual photographic and developing processes, the company's line of X-ray appliances in a superficial way, how to use the company's price sheets, how to service all equipment, and how to lay out X-ray and hospital rooms containing various pieces of equipment. (The actual training schedule showing number of hours devoted to each phase is indicated in Exhibit 2.) Completion of this program ended a man's formal education and he was then sent to the company's service department as a helper on an apprenticeship basis. After six to twelve months, depending on his progress, he was sent into the field as a cub salesman under a district manager or senior salesman in a particular territory. While dealers were responsible for training their own service and salesmen, they were encouraged to send their representatives to training classes conducted by the home office free of charge.

This training course was very long and involved intensive study; consequently Mr. Picker acknowledged that by the time a salesman knew all he needed to know about X-ray for radiographic and therapeutic uses and methods of technique and calibration, he had accomplished a great deal. However, the educational process was never completed and the problem of getting information into the field on developments which were constantly being made in the industry was a serious one. To keep salesmen up to date on prices, developments, and sales information, the company sent them a monthly bulletin containing everything which sales executives felt pertinent to the selling job. This bulletin, averaging between 50 and 60 pages, included reproductions of articles published in medical journals, discussions on X-ray by American Medical Association officials, notes on what competitors were doing, tips and discussions on technical points of new installations, and instructions on pricing. Mr. Picker questioned whether this was the most efficient way of putting out the information for he felt that, if the salesman absorbed all that was in the bulletin, he was doing more than could reasonably be expected of him.

However, the main problem facing Mr. Picker in the fall of 1946 was how to adapt his organization to the selling job required in the industrial X-ray market. Although the type of equipment being sold to the industrial and medical markets and the kind of knowledge required by those selling this equipment were much the same in many respects, the needs of the two markets and their buying habits were considerably different. Equipment dif-

Exhibit 2. PICKER X-RAY CORPORATION. Training Program: General Subject Material and Periods Assigned

Subject	Salesmen periods (100 min. each)	Servicemen
1. Orientation	4	4
2. Elementary electricity	10	10
3. X-ray physics.	5	5
4. Anatomy and positions	5	5
5. Dark room procedure	3	3
6. X-ray film	1	1
7. Tour home office ...	1	1
8. Radiographic factors	3	3
9. X-ray tubes	5	5
10. Accessories, radiographic to include use catalogue, price list	31	12
11. Mfrs. representatives, Agfa, East, DuP.	3	0
12. Routine records	1	1
13. Handling accessory orders	2	0
14 Handling machine orders	1	0
15. Necessity of schedules (routes)	1	1
16. Machines—specifications, demonstration—use of	28	22
17. Layout	2	2
18. Visit Ordway factory *	2	2
19. List of users, financial report, adieu.	1	1
20. Open time	14	7
21. Tests	3	3
22. Review of tests	3	3
23. Lost time. ..	3	3
24 Control boards		4
25. Calibrations		2
26. Special tests, discussion		1
27. Laboratory, various tests—practical		4
28 Outside service		8
29. Installation model 50 †		4
30 X-ray transformers		1
31. Therapy equipment		1
32. Tubestands		1
33. Monitor controls		2
34. Phasing impulse timers		4
35. Installation model 100 †		4
36. Service tips		2
37. Field experience	24	24
	156	156

* A manufacturer of X-ray tubes sold by Picker.
† The two principal medical X-ray machines made by Picker.

fered only in appearance and in the number of auxiliary devices attached to facilitate handling of X-ray appliances. Whereas a machine which was intended for a practitioner's office would have to be well designed with chromium molding, high-polished handles, bakelite and stainless steel surfaces, an industrial machine might be simply housed in a plain metal case. Furthermore, because doctors and hospital superintendents regarded the ease of

manipulating the machine as a most important feature, a medical X-ray appliance would have to be equipped with automatic centering devices, moving parts fitted to rails, and adjusting mechanisms, while an industrial appliance could be fitted to a chain hoist and adjusted by hand.

On the other hand, the requirements of both industrial and medical markets differed and salesmen selling these two types of equipment would have to be well trained in their approach to different types of customers. Because cost savings to be realized constituted the most important buying motive industrially, salesmen had to be able to explain to factory purchasing officials how these could be achieved through the installation of Picker industrial X-ray equipment. Medical appliances were very seldom purchased on the basis of cost, for customers were concerned more with design, trimmings, and adjustment attachments. Furthermore, inasmuch as medical customers were not interested in the inner workings of X-ray equipment, salesmen did not have to devote much selling time to technical explanations. Industrial buyers, however, because of the nature of their engineering training, were generally interested in the details of the mechanism and a salesman had to be prepared to discuss these in his efforts to convince prospects of the advantages of industrial installations.

In dealing with the medical profession, salesmen had to know professional ethics, for these determined very largely the functions which they were required to perform. A Picker representative had to know how to instruct a physician in getting a perfect X-ray picture, but at the same time he could not interpret the picture even though he might have had more experience than the physician along this line. Nevertheless, in the industrial application of X-ray, factory managers and superintendents often wanted an interpretation on the part of the salesman. Since X-ray as applied to manufacturing processes was relatively new, few men had sufficient experience to use it without technical assistance. Thus, factory personnel might rely on Picker salesmen for aid, and their decisions would in turn have an effect on the company's reputation in this market. Consequently, a salesman selling both types of equipment would have to watch that he did not gradually fall into the habit of treating both types of customers alike. Nevertheless, both classes of buyers were alike in that neither engineers nor physicians knew what type of machine would do the job they wanted done; thus, salesmen had to be able to advise customers in both markets on the uses of different Picker machines and make recommendations as to the type of equipment to be purchased. In addition, industrially, they had to be able to plan the installation of different machines to fit a plant's production line.

Although Mr. Picker recognized that utilizing the medical salesforce in selling industrial equipment might constitute the most efficient use of his sales organization, this method of distribution had serious drawbacks. The existing, well-trained salesforce knew industrial X-ray machines, but not their

application to various manufacturing processes. During the postwar period there had been signs that this medical salesforce lacked sufficient knowledge of therapeutic uses of X-ray equipment, and Mr. Picker hesitated to burden salesmen with the additional job of learning industrial applications, for a man's technical skill in the use of medical equipment might be adversely affected. The present salesmen could also sell industrial supplies and accessories because of the similarity of these items; thus accessory sales could be handled efficiently and without requiring any further technical knowledge on the salesman's part. While Mr. Picker believed that, ideally, he would like to use his present salesmen to sell all products, such a solution was complicated by the fact that the market for industrial X-ray machinery was not as good as it had been during the war. The general attitude of manufacturers now was against the purchase of additional expensive equipment because, since everything could be sold regardless of differences in quality, there was no need to radiograph raw materials for flaws. Therefore, considerable time and educational effort would have to be devoted by industrial salesmen to demonstrating to industry the need for such equipment. However, the fact that Picker salesmen were capable of handling some of the problems involved in selling industrial machinery led Mr. Picker to consider them.

There were essentially three alternative plans which the company could follow in setting up its sales organization to sell industrial X-ray equipment. First, a position of industrial sales manager might be created in addition to the existing medical equipment and supplies and accessories sales managers. The latter two as of November, 1946, jointly supervised all salesmen. Although such an organization would utilize the present field organization, there was a consistent effort on the part of each sales manager to push his line to the detriment of the other and the addition of a third would only exaggerate this situation. As it was, the accessory sales manager stressed accessory sales and encouraged the salesmen to cut down on the amount of time spent on servicing and making machine sales while the medical X-ray equipment sales manager tried to get the men to minimize accessories. While the present plan seemed easiest to put into operation, company executives felt that the resulting confusion in the sales department might be detrimental to the medical end of the business.

Since industrial sales were now small and equipment was sold only upon request rather than as the result of promotion, Mr. Picker suggested that the firm add a small force of industrial salesmen (10–12 men) who might operate separately under an industrial sales manager. However, the obvious disadvantage in this alternative was in having duplicate salesforces in the East selling almost identical products. If such equipment were to be sold in the same area in which the company was already represented industrial salesmen would have to travel relatively more because of the small size of the force

and the thinner markets. Consequently, their time could not be utilized efficiently except in more densely populated areas. This method had one advantage, however, in the fact that the existing force of service and combination salesmen could maintain all industrial equipment in use; thus a smaller industrial force could cover a larger area.

A third plan, which company executives tentatively favored as a temporary method of entering the industrial market, was to establish a separate organization, the Picker Industrial Sales Company, to distribute industrial X-ray equipment. This new company would purchase appliances on a wholesale basis and resell to the existing sales organization except in certain areas where it would sell direct. In connection with this plan, Mr. Picker recommended that the company organize an engineering service operating under a name such as Picker Laboratories. The function of this new laboratory would be to go into industrial plants at their request and make studies on quality control through application of X-ray equipment. In this way, Picker might be able to convince businesses of the value of such apparatus after using it to solve production problems on which Picker Laboratories had been consulted. Such a laboratory would operate directly under the industrial sales organization and would employ the force of industrial salesmen in its consulting work. Those areas in which the Picker Industrial Sales Company would sell direct would be those immediately adjacent to the laboratory of the industrial sales organization. If the firm decided to set the laboratory up near its home office, then the medical sales department would not be allowed to sell industrial equipment in that vicinity. Mr. Picker believed that the company could get adequate coverage through the industrial salesmen in that area, but as this staff became larger, the territory covered could slowly expand until the new subsidiary took over its own share on a nationwide basis. Industrial salesmen would be paid as currently; i.e., on a sliding commission scale based on gross margin with a 10% maximum. The limiting factor in determining the size of this new organization would be its ability to pay its own way. Executives believed that the company should start out on a small scale and expand only on its own profits; in the firm's history no money had been borrowed for expansion.

Mr. Picker could see three principal advantages in this plan of entering the industrial market. First, since the company intended to pay the manager of the Picker Industrial Sales Company on a share-of-the-profits basis, there would be sufficient impetus for him to expand sales. Secondly, in areas which this company could cover directly, it could do a better job of selling and industrial education than could the present medical sales organization. Finally, as time went on, the new company could sell direct to more and more areas. Thus at the outset, Picker would not have to risk the dangers of investing a large amount of money in getting wide distribution over an unknown market. However, while stocks of medical supplies and equip-

ment were carried in several places, stocks of industrial equipment would not be carried in either the same or as many locations under the proposed organization. One problem involved in both this plan and the second alternative might arise out of the fact that, since salesmen of both the medical and industrial salesforces would have exclusive geographical territories, friction might arise in selling to a large company such as General Motors which had both industrial and medical departments. Since many accessories and supplies were used in both types of X-ray equipment, two salesmen selling the same items might be calling on the purchasing agent of the medical department who had formerly bought all X-ray equipment for the firm. However, the industrial purchasing agent might feel that procurement of X-ray supplies was under his jurisdiction and in such a situation, salesmen had to use a tactful approach. The company's problem here was in determining whether the medical salesman, who was able to sell supplies for both types of equipment without any further training, should continue to do so or the industrial salesmen should take over the job.

Discuss critically the three plans under consideration.

Which plan do you think Picker should adopt? Would you make any modifications in this plan before putting it into effect?

68. APPLETON EQUIPMENT COMPANY. Qualifications of a Sales Manager

The Appleton Equipment Company of Appleton, Wisconsin, was one of the world's largest manufacturers of specialized road making equipment. The company, founded in 1910, had grown gradually until sales in 1953 exceeded $40 million. Nationwide distribution was obtained through 20 sales and service offices. Branch plants were located in Philadelphia, Atlanta, Cleveland, and Sioux City, Iowa. All sales were of a technical nature and it was necessary for each salesman to have a semitechnical background and a thorough understanding of the uses and applications of Appleton equipment. In 1954, Appleton employed 65 salesmen and 50 servicemen.

In 1954, the president, Mr. J. B. Hollingsberry, was concerned over the manner in which his sales manager, Mr. Arthur R. Hyde, was performing his function. Part of this problem, Mr. Hollingsberry believed, was due to the general procedure which had developed in the Appleton Equipment Company during the war and postwar period for developing and promoting managers in the sales area.

The Appleton Equipment Company's first sales manager served in that capacity for 30 years from 1910 to 1940, during which time sales grew from $400,000 to $3.3 million. The sales manager was generally given a large share of credit for the growth of the company during this period. The sales manager developed six key salesmen, each of whom had a great deal of individual selling effectiveness. All the company's sales were made by these men. The

sales manager himself was strictly a "desk" man who planned the activities for his salesforce.

The sales manager was instrumental in the securing of engineers and designers who continually improved the company's products in accordance with customer desires and requests. During this 30-year period there were many significant technological changes in Appleton equipment and a rapid expansion of the market in which the equipment was sold. When the sales manager retired in 1940 he was replaced by one of the six key men. This man retired in 1950 and was succeeded by Mr. Hyde, another of the six original salesmen. Mr. Hyde had served as a district manager since 1945. In 1954 he was 56 years old.

The company expanded rapidly during the war so that sales in 1946 were $9½ million. This sudden growth during a period when man power was scarce forced everyone in the sales department, including district managers and the sales manager, to engage in selling. Large subcontracting orders made it absolutely necessary that the sales manager handle negotiations personally. During the postwar period, the expansion of sales in a sellers' market encouraged the continued use of superior salesmen as district sales managers.

The ability to use top salesmen as sales managers was in large measure caused by the relatively few sales which were needed. A few key salesmen (the district managers) could sell most of the company's output. Appleton's total output was only 700 to 800 pieces of equipment a year. In capital goods companies, it was not unusual for the sales to be made by top executives. In some companies the president served as the chief salesman and sales manager.

A major subsidiary was added by purchase in 1944. This purchase, in addition to increasing total company sales, substantially expanded the responsibility of the sales manager. Additional companies were added during the postwar period increasing the detail work that had to be done by the sales manager. These pressures continued to build up and by 1952 caused the sales manager to lose contact with the customers he had served. Mr. Hyde found that he no longer had time for selling since it was necessary to devote himself to such activities as salesman selection and training, sales budgeting and programming, and to problems involving statistical analysis. Mr. Hyde, however, was not content with his new role. He wanted to be a "star" salesman rather than adjust himself to executive techniques. As the company continued to grow and new district sales managers were appointed, the leading salesmen were in all cases selected for these positions.

Commenting on his problem, Mr. Hollingsberry said:

> In our sales organization, both for field men and home office executives, the basis for selecting a man for promotion is almost inevitably an outstanding sales record rather than characteristics that would be needed in a good sales manager. In the past, our vice president in charge of sales has been first and

foremost a salesman with direct responsibility for handling or delegating to others our top accounts. Our man had to have a very high degree of technical information on which he was articulate, i.e., he had to be able to demonstrate to the buyer the economies of purchasing our capital equipment in terms of potential savings.

In the field Mr. Hyde is a super salesman. He has a splendid personality, and one has to be enthusiastic about his personal exploits in selling.

It all adds up to leadership, by example and by ability. Hyde demonstrates his ability to the rest of the selling organization. This is a marked contrast to sales managers who rank high on ability to train other salesmen.

I am beginning to be concerned with the number of problems with which Mr. Hyde does not seem to be able to cope. Mr. Hyde is unable to make effective use of sales data. Some of it may be slightly difficult to evaluate, but he just doesn't seem to like statistical analysis.

He also does not fulfill his function as a policy maker or give a continuity of policy. There has been no consistent approach toward a sales program. The field salesmen and district managers have trouble getting clear-cut decisions for specific situations. Sometimes Hyde makes no decision at all, leaving it to the field men to decide for themselves. These men do not have adequate policy background on which to base a decision. They also fear that any decision that they make might be objected to by someone in the home office.

Hyde's salesman's inclinations are to keep prices down and to give lots of service. He also allows salesmen to give excessively long trade-ins. This same weakness is present in our field sales managers. There is a conflict between the desires of an expert salesman and the requirements of a man who leads a sales-force. Since the war, star salesmen have been getting the nod on every level.

Our district sales managers do not face the policy problems for which our general sales manager is responsible. But they do have to supervise from three to eight servicemen in addition to the salesmen in their area. They should have some management ability. I have always believed that a salesman should not be promoted to the job of district sales manager unless he himself is a good salesman. One who was not a good salesman would be unable to achieve acceptance from his subordinates. But I'm beginning to wonder whether a man with perhaps a good market research background might not be able to serve as general sales manager.

I am puzzled how, with our present type of operation, to go about finding a sales manager internally who has ability for management.

Mr. Hollingsberry was sure that his problem would increase in the future as his company expanded by means of adding new products, by continued acquisition of other companies, and by taking on complementary products for resale.

CASES IN BRIEF

1. The Byron Adams Company was engaged in the manufacture of industrial and commercial lighting equipment and porcelain steel sanitary wear. The main offices and plant of the company were located in Inglewood, California, a suburb

of Los Angeles, and branch offices with factory stocks were maintained in San Francisco and Houston. Sales offices were located in Inglewood, San Francisco, Houston, Chicago, and New York. In June, 1940, Mr. Lane, sales manager of the company, died after a short illness, and the company was confronted with the necessity of choosing a successor. About 45% of sales was made in the commercial and industrial lighting market and was sold primarily through electrical supply wholesalers to contractors who made installations in factory and office buildings. Its chief competitors were the large electrical companies. Total sales averaged about $500,000 a year. Three alternative courses of action were open: First, the assumption of the sales manager's duties by Mr. Byron, Sr., who because of his age had in recent years been taking less and less active part. The second alternative was the appointment of the San Francisco branch manager, Mr. Allen, who had done an excellent job in developing that territory. He had a wide circle of contacts and friends, and it had been possible for him to get Byron Adams equipment specified in many state and private contracts. He also possessed substantial skill in design and engineering. There was considerable doubt as to whether, with his removal to Los Angeles, the company could hold a large portion of the business which he had developed. The third alternative was the man who had been responsible for the development of the Los Angeles sales territory, Mr. Phillips. He was somewhat quieter and less aggressive than Mr. Allen but had developed an excellent position in the lighting industry in that area. While a good engineer, he did not appear to have quite the design ability that Mr. Allen possessed. Mr. Phillips was slightly younger than Mr. Allen and, if Mr. Allen were made sales manager, friction might develop between the two men. The need for a sales manager was felt particularly since the company had entered upon the manufacture of fluorescent lighting fixtures and competition was becoming extremely keen. The Byron Adams executives were fairly certain that technical advantages of fluorescent lighting were such that it would replace incandescent illumination for commercial and industrial lighting purposes in the near future. As a result, it was important that the new sales manager should be capable of adapting the company's marketing methods to the fundamental changes that were taking place in the industry.

How should the Byron Adams executives go about deciding whom to appoint as sales manager?

2. The Daly Company manufactured laundry and toilet soaps and special preparations, concentrating upon comparatively few products: one a soap flake for washing fine fabrics, another a quality laundry soap, the third a dye soap. These, with two or three other products, all of which were widely advertised, made up the line.

The entire output had been sold through manufacturers' agents in New York, who had charge of the advertising and who had been successful in creating a nation-wide market for at least one of the products. They bought products, maintained their own sales organization, selling through jobbers to the retail trade; but orders they secured were turned over to the factory, and shipments were made direct to buyers.

In July, the general manager of the Daly Company was apprised of the vote of the board of directors that the contract with the manufacturers' agents, which would expire by limitation October 1, was not to be renewed; further, that the Daly Company was to establish its own selling organization, to begin operations 3 months later. The salesforce would have to be large enough to call upon jobbers and to make missionary calls upon retailers. The general manager was asked to make recommendations for the position of sales manager.

After his appointment, the sales manager was requested to submit a brief plan of the work required before organizing the new sales department. He found that no information, other than a list of cus-

tomers and credit ratings, could be secured from the selling agents. These lists revealed the fact that Daly products were sold over the entire United States, one of them through practically 70% of all grocery outlets.

What steps had to be taken by the general manager in locating a suitable candidate for the position of sales manager? Outline the necessary steps for the creation of a new sales department within the time limit.

3. A large petroleum refining company was dissatisfied with the organization of its marketing department. It felt that a more effective organization could be developed. For that purpose it called in a consulting firm to advise with its executives on the problem. After spending many months it came up with the proposal that the company organize on the basis of its primary markets. It asserted that petroleum products were purchased primarily by five markets as follows: the service station market; farm market; home heating market; airport market; and marine market, all of which constituted the retail market field. In addition to these there was a sixth broad market called the industrial market which in turn comprised the market among industries using petroleum products, the market among companies using fleets of trucks or automobiles, market among building and other contractors using petroleum products, the commercial market, business firms using fuel oil, gasoline and lubricants, and the transportation market, particularly the Diesel market, among the railroads. It was suggested that special salesmen be employed to develop each of these markets in various districts and divisions and that they be supervised by a retail marketing general manager who would be in charge of five retail markets and an industrial marketing general manager who would be in charge of the industrial markets. In each case they would be assisted by specialized assistant managers for each market.

To what extent could a petroleum company expect to secure added volume and improve its market position? What effects upon profits were likely to be noticed?

4. The Madison Food Corporation, capitalized at over $10,000,000, manufactured a narrow line of widely advertised specialty food products which, distributed through wholesalers, was sold in a large number of retail grocery stores in the United States. A force of 100 missionary salesmen was maintained to call upon retailers and occasionally upon jobbers; 20 jobber salesmen, who in certain sections acted as district managers, were concerned with the wholesale trade. Warehouse stocks were carried in a few larger cities and on the Pacific Coast.

Some years ago on the advice of legal counsel, the organization was changed so that all the marketing operations were carried on by a new wholly-owned corporation, the Madison Food Sales Company, with a capitalization of $25,000. Trade-marks, patents, plants, and most other assets continued to be owned by the Madison Food Corporation. At the time of establishment, legal counsel had declared that the savings and taxation would justify the additional time and trouble of incorporation and maintaining a separate sales organization. A current estimate had shown that realized savings in taxes amounted to some $2,000 a year. Tax savings had been reduced considerably, however, because of the adverse decisions of certain state tax authorities who declared that the selling corporation was to all intents and purposes a part of the producing corporation and that the small capitalization of the sales company was merely subterfuge. Consequently, tax levies were made on the combined capital stocks of both manufacturing and sales organizations. Certain executives were not convinced by this estimate and proceeded to authorize an intensive study of the costs involved in maintaining separate organizations. They were confronted with problems as to what these costs comprised and as to methods of measuring them.

5. Following the death of Mr. L. W.

Cortland, who had been president and sales manager of the Cortland Company, directors of that concern were faced with the problem of choosing his successor. A vice president had been advanced to the presidency, but no one on the present managerial staff was in a position to undertake supervision of sales operations. The directors therefore decided to seek a man outside the Cortland organization.

For a number of years the Cortland Company, operating throughout the New England states, had acted as agent in this area for a group of small manufacturers. The company did not carry full lines, but specialized in distribution, under the Cortland private brand, of two groups of products: (1) cosmetics, drugs, and soaps; and (2) canned goods and fancy foods. Department stores provided a majority of the company's sales volume. The executives had emphasized coöperation between manufacturers, department store buyers, and the Cortland Company with the result that Cortland merchandise was comparable in quality to nationally advertised brands and in most instances was made available to the public at substantially lower retail prices.

In seeking a capable man to act as Mr. Cortland's successor in the sales division, the directors bore in mind the fact that the company might soon embark upon a program of national expansion. It was known that the late Mr. Cortland had contemplated this action before his death. Although the Cortland Company operated only in the New England states, its reputation extended beyond local boundaries as a result of strong advertising and promotional support afforded by the leading, nationally known New England department stores through which it sold. Many department stores outside New England had expressed a desire to assume retail distribution of the Cortland merchandise, and company executives had for some time given considerable thought to territorial expansion. In selecting a new sales manager it was necessary, therefore, to find a man who was capable of exploring the possibilities of gradual expansion of the Cortland business.

It was also necessary that the man chosen have adequate experience in wholesaling as well as an intimate knowledge of retail distribution. Again, it was desirable that he be thoroughly familiar with market analysis and research procedure. It was believed that the man preferably should be between the ages of 30 and 40. No salary range was definitely established, but the company might pay $15,000 annually or possibly more in order to secure the right type of man. Although the Cortland directors were of the opinion that national expansion would prove successful, they realized, nevertheless, that a substantial degree of uncertainty was inherent in the program. Because of this risk the directors did not believe it right to hire a man who was already enjoying the security of a well-paying position in an established business unless, of course, the man was particularly desirous of making the change. On the other hand, the directors did not want a man who had not already attained a marked degree of success in an operating position.

How should the company go about finding candidates for the position?

6. Much publicity had been given to the subject of decentralization of companies during the period since the war. The General Electric Company had endeavored to decentralize its organization with divisions and departments, each of which had its own producing organization and its own marketing organization including both line and staff functions.

What were the basic requirements for the successful operation of a decentralized organization?

How can a company minimize the risks of giving authority to the managers of decentralized divisions?

In each decentralized organization, should each decentralized division have its own staff as well as line organization? On what basis should staff functions of the central office be developed?

7. A company making paper and textile bags for packaging bulk products had

plants in ten cities in the United States, some plants being specialized on paper bags, others on textile bags. The sales manager of each sales division had his headquarters in a bag plant and was also the operating manager for that plant. There were no direct criteria for judging sales performance in the territory of any particular sales division because of the overlapping of territories for textile and paper. There was a tendency for each plant and division manager to put greater pressure on his salesforce to sell products made in his own plant rather than products made in other plants even though his organization received a commission on products manufactured elsewhere.

It had been proposed that the sales organization be separated from the manufacturing organization and that a separate sales corporation be formed to take over responsibility for sales of products from all the plants.

What problems were likely to be encountered?

8. A small appliance wholesaler had the distributorship for lines of radio, televisions, washers, and vacuum cleaners. It did not have refrigerators or range franchises. While the products it represented were of good quality, they had not been advertised and were not sold in the volume of the leading lines. The company was managed as to both sales and other departments by the owner. Sales had been developed at the rate of about $900,000 a year; the breakeven point appeared to be about $80,000 per month without counting the expense of a sales manager.

The problem before the company was that of finding and choosing a sales manager. It was believed that, if a sales manager were hired at $10,000 per year, the total annual business would have to be in excess of $1,000,000. The existing salesforce consisted of six men, each with a drawing account of $75 per week. Two of the men made $100 a week or over, but four had failed to earn their drawing accounts. Finances were limited but the company could hire a sales manager, pay a salary for a year, and assume the current rate of loss if it could look forward to reaching the breakeven point at the end of that time.

How should the company go about finding and choosing a sales manager?

B. FIELD ORGANIZATION OF THE SALES DEPARTMENT

The manufacturer who extends his selling operations into a market beyond his own immediate vicinity soon learns that the control of marketing is much more difficult than the control of manufacturing. Instead of overseeing workers under one roof, he must direct the operations of a group of men of various ranks and degrees of ability scattered over a section, a country, or perhaps the entire world. In the past, members of the sales organization traveling in the field have ordinarily been subject only to long-distance supervision. Printed matter, letters, telephone, and telegraph, with only occasional visits of officials, were depended upon to keep the salesforce operating smoothly and efficiently. Today a well-defined tendency toward closer personal supervision is developing. Progressive executives are closely studying the problem of increasing profits by augmenting the amount and quality of supervision of field forces, and not a few of them have already begun to reap the benefits of the more economical combination of supervision and direct sales effort.

Whether the field organization consists merely of a limited salesforce with no supervisory officials or of an elaborate system of inferior and superior branches, division and district offices, with hundreds of salesmen, the efficient performance of the selling function is, in most cases, the prime purpose of the field organization. Nevertheless, there are other functions the performance of which has frequently been partially responsible for the development of the field organization. One of these is the desire to develop closer contact with buyers, a policy which occasionally leads to the use of a field organization to replace one or more types of distributors. Many firms have found that an organization of stock branches is advisable for the purpose of meeting the requirements of customers for economical and prompt delivery. Another powerful motive for the extension of field organization is the requirement of expert service in installation, maintenance, or repair for more or less complex products.

The official who supervises the salesmen in the field may be a "foreman" of salesmen, whose prime or sole function is that of overseeing a limited group of salesmen, or he may be a district manager, who may have other responsibilities in addition to supervision of the salesforce operating in his district. Supervisory officials of the first type represent a clear-cut application of the idea of foremanship, universally accepted in factory practice, to the management of the salesforce in the field. While in practice it has been found advisable to give an appearance of greater dignity to the position of sales foreman by calling him district sales director, squad leader, district manager, or the like, there is no uniformity in designation, nor is there uniformity of duties.

The use of sales foremen is justified only if it increases profits through additional sales or lower costs of selling. The use of sales foremen is ordinarily expected to increase sales for several reasons: (1) Because of the improved supervision furnished, there is greater probability that duties of salesmen will be performed more satisfactorily and that waste and expense will be lessened. (2) The work of the sales foreman should bring about better selection and better training of salesmen; as a consequence, salesmen should perform more satisfactory service and be better paid, which should result in a smaller turnover in the salesforce. (3) Sales foremen in large organizations provide a means of obtaining the much-needed contact between headquarters and field force, a contact which, on the one hand, enables the ideas and wishes of headquarters to be transmitted into the field more effectively and, on the other hand, provides for the collection of information concerning conditions in the field and opinions which are of the utmost importance to the correct planning and direction of sales operations by the headquarters staff. Furthermore, the position of sales foreman offers an opportunity for the promotion of salesmen to subordinate executive positions and, therefore, provides op-

portunity for determining the qualifications of a salesman for executive work with less risk than if promotion were made directly to more important positions.

The introduction of sales foremanship, through the appointment of either field supervisors or managers of sales offices, may not give the expected results. Not infrequently, when such foremen are chosen from the ranks of the salesmen, they are incompetent or unfitted for the position because they have few qualities of leadership, although they have outstanding selling ability.

The functions of a sales foreman may include the education of field forces through a type of training now popularly known as training on the job; he is ordinarily expected to exercise supervision and control over the salesmen's work, not merely inspecting and checking but suggesting methods of meeting and of overcoming special difficulties; he is also likely to be held responsible for reports. Frequently, he may be expected to open new accounts or facilitate adjustments with customers.

The branch organization usually consists of a branch manager, sometimes with assistant and departmental managers, salesmen, and such clerical assistance as may be necessary. Branches range in size from mere offices at which salesmen meet to elaborate organizations having showrooms and carrying large stocks. Wide divergencies in the nature and functions of branches are to be observed, but there is little basis for making broad general statements upon the nature and functions of branches. Upon no other operating problem is there likely to be such agreement as upon the allocation of responsibility in handling branch personnel. The branch manager is in a large majority of cases made wholly or partially responsible for hiring and firing. For this reason, as well as for many others, the selection of the branch manager is of great importance. In much the same manner as the general sales executive, he must direct selling operations within the limitations imposed in such a way as to conform generally to the plans for the development of the enterprise.

The broad question which confronts the chief sales executive as to the establishment of branches is one which is not easily answered. Branches involve substantial outlays of capital and very substantial risks of loss. During the period beginning with 1930, many firms with extensive branch organizations found that they had accumulated large capital obligations and sometimes disastrous fixed charges for rentals and salaries which were not warranted by the earning opportunities of the branches. As a consequence, many branches were discontinued, and other organizations were simplified. If there is any general rule to be applied to the establishment of branch organizations, it is to the effect that the burden of proof is upon those who advocate establishment of branches rather than upon those who oppose such extensions.

69. NEWLIFE INSURANCE COMPANY. Appraising and Developing Potential Area Sales Managers

In 1952 Newlife Insurance Company started to develop procedure for appraising and developing men as potential area (local branch) sales managers. This procedure involved an analysis of various recorded data plus a specially devised and labeled "observation interview." The results were summarized in an Appraisal Report Summary which was later reviewed with the candidate. As such, the summary served as the basis for subsequent training and development designed to qualify the man for the area sales manager position. A pictograph of the entire process has been included as Exhibit 1.

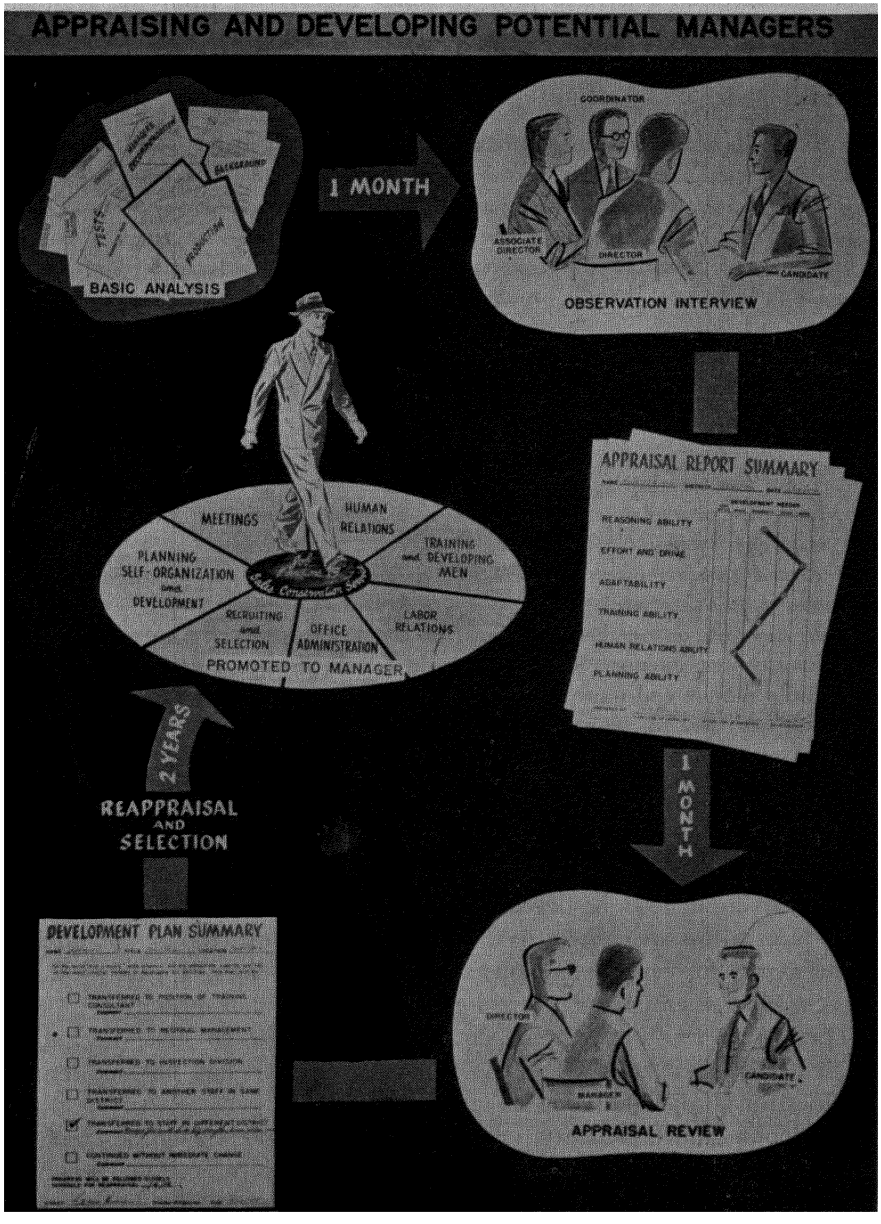
Mr. Stanley B. Joplin was placed, in 1952, on a special assignment to develop a new procedure for appraising and selecting potential area sales managers. This assignment was the result of a special study which had shown that:

1. During the following 10 years, replacements would be needed for over 60% of the present area sales management group through normal turnover, death, disability and an increased number reaching retirement age.
2. Based upon simple measures, only 45% of the area sales managers selected from 1945 through 1950 was considered to be performing very satisfactorily. Thirty per cent was doing an adequate job, while the remaining 25% was not doing an effective job.

Newlife Insurance Company with total sales in 1951 of $1.6 billion was known as a combination insurance company. Combination insurance companies handled weekly and monthly premium insurance as well as ordinary and group insurance. Newlife operated 261 area agency offices throughout the United States. Each area agency sold and serviced weekly premium life insurance, collected on a weekly basis; intermediate-ordinary life insurance, which was collected on a monthly basis; ordinary life insurance with premiums paid quarterly, semiannually or annually. Group insurance sold through employers included life and other forms of group coverages such as accident and health, major medical expenses, and hospitalization.

Each manager of an area agency office supervised about six staff managers who in turn supervised about seven agents (salesmen) apiece. Agents served as both salesmen and collectors, but the sales function was emphasized. These men received part of their pay as collection commissions, but the larger share was earned in the form of sales commissions. They sold and serviced all income groups, including policies owned by low-income industrial workers. Policies owned by this group were small-sum policies usually sold on a weekly or monthly basis. Each agent typically serviced a territory covering about 360 families who held small accounts, where there might have been four or five such policies in each family. The agent made

Exhibit 1. NEWLIFE INSURANCE COMPANY



approximately 125 calls per week. The agents were represented by a union.

The manager of an area agency was in complete charge of a geographical area and received relatively little personal supervision from the regional director, who, in most instances, was located in another city many miles away. He was expected to perform the following functions, as described by Mr. Joplin:

1. Train, develop, and supervise staff managers and agents.
2. Recruit and select agents.
3. Plan and self-organization: organizing sales activities.
4. Conduct Friday meeting (inspirational and educational meetings).
5. Office administration: approximately eight girls required supervision.
6. Labor relations: handle union matters with agents and interpret union contract.
7. Human relations: morale building and motivation.

The staff managers who worked under the area sales manager were expected to:

1. Train and develop agents.
2. Organize and plan sales activities: for his staff and coordinated with the total agency plan.
3. Attend to administrative activities: review accounts, keep records, conduct audits on collections.
4. Be responsible for agent relations.
5. Recruit new agents. (Selecting was done with the area sales manager.)
6. Build morale and motivation in the agents.
7. Sell with and for his men.

The staff manager was on the "firing line," working with and coaching the agents individually. In contrast, the area sales manager's job was primarily general administration and group inspiration and teaching.

Mr. Stanley B. Joplin had been with Newlife Insurance Company for 16 years. Starting in 1948, he developed a Sales Research Division. For the two years prior to his assignment to this special project, Mr. Joplin was director of personnel for home office operations. Since his latest appointment, he was classified as an unattached regional director in a staff capacity.

There were 11 other regional directors, each of whom supervised about 24 area sales managers. Each of these regional directors had full line responsibilities for all operations in his territory.

Mr. Joplin launched his study by spending a day interviewing each of the regional directors, 14 "successful" area sales managers and 14 "relatively unsuccessful" area sales managers. His basic approach was to ask each individual to draw a "job wheel" describing the job of the area sales manager as he saw it as well as describing the characteristics of the man who could most effectively perform that job. He found that there were no com-

mon concepts as to how this job should be performed, nor were there any common concepts as to the kind of man who would be successful. All the job descriptions were different. Some stressed human relations, others administration and planning, still others sales meetings. The job descriptions as well as the man descriptions were, in reality, projections of each individual's own experiences and characteristics.

Because of this lack of common understanding about the job and the kind of man needed it was decided an approach should be developed that each regional director would understand and use. To achieve this goal, all regional directors were brought together in December, 1952, to draw up a commonly agreed upon concept of the job and to edit material to be used in developing a training course.

The job concept, as evolved at the December directors' meeting, was based on a verbal exchange and it was believed that these concepts could best be solidified by having the directors share experiences more fully so as to make the words more meaningful. Thus, in February, 1953, all regional directors, as a pilot group, took the two-week training course which had been prepared by them for area sales managers.

On the basis of (1) the February, 1953, training experience with the directors, and (2) the man descriptions made in the original survey, six basic factors were defined which it was felt were most vital in appraising a staff manager for the position of area sales manager. These factors were expressed in question form:

1. How will he perform in dealing with people? (Human Relations Ability)
2. How will he perform in planning and organizing the work of the area agency? (Planning Ability)
3. How *hard will he work?* (Effort and Drive)
4. How will he perform in *training* his men? (Training Ability)
5. How will he adjust to changing procedures and new materials? (Adaptability)
6. How will he use his experience in reaching decisions? (Reasoning Ability or Judgment)

These were not intended to be independent measures. Rather, they expressed what the regional directors felt was important in determining how a man as a whole would perform in various job situations. It became Mr. Joplin's job to produce evidence, by any means available, that would help to answer these questions.

As an aid in answering these questions about each candidate, Mr. Joplin used four approaches:

1. An analysis of personal background data. This analysis included the usual questions about a man's past experiences. Mr. Joplin expressed confidence

in the belief that the patterns of behavior revealed by what a man has done in the past "are a good indication of what he might do in the future."

2. An analysis of actual production measures. Rather than accept the total sales figures of the staff manager's agents, Mr. Joplin made a detailed analysis over the past three years of what each staff manager had done with each agent, supplemented by an assessment of the particular situational factors (i.e., market, age of agents, performance of staff before he took it, etc.).
3. The use of a battery of achievement, mental ability, and personality tests. The emphasis in selecting individual aptitude tests was on what additional insights they could provide about a man's abilities. Four types of tests were adopted:
   (a) A reasoning test to assess the level of intelligence, the ability to absorb new ideas.
   (b) The Information Index, from the Life Insurance Agency Management Association, to assess the level of insurance knowledge.
   (c) A human relations questionnaire developed by Newlife to assess this aspect of management know-how.
   (d) A personality questionnaire to gauge drive, emotional stability, and friendliness.
4. An observation or "situational" interview. This approach was developed after Mr. Joplin had studied the various interview techniques currently used by Newlife's regional directors. He found that three main types of interviews were used:
   (a) A "visit centered" interview in which the interviewer tried to get a general impression of the candidate's personality.
   (b) A "question centered" interview in which the interviewer could strive either for coverage or depth on what the candidate had done, thought, or believed.
   (c) A "candidate centered" interview in which the interviewer set up one or more basic questions and let the candidate do the talking while the interviewer listened.

Mr. Joplin believed that there were advantages in each of these types of interviews, but he was not satisfied that any one of them was able to get sufficiently close to how a man actually performed as staff manager and whether potentially he would make a good area sales manager.

Mr. Joplin experimented at first with what he called a "problem centered" interview in which he asked the candidate to explain how he would handle certain problems: "How would you handle an agent who was in a production slump?" "How would you train an older agent who was not keeping abreast with the latest sales methods?" Mr. Joplin became dissatisfied with this method when he found that candidates often gave "text book" answers or answers the candidate thought that the interviewer wanted.

While experimenting with the "problem centered" interview, Mr. Joplin visited with one regional director who, in the course of a selection interview with a staff manager, assumed the role of a prospect and asked the

candidate to make a sales approach. Mr. Joplin reasoned that, if this could be done for a sales situation, it might also be done to see how a candidate would handle various management situations involving training, human relations, planning, etc.

Mr. Joplin claimed that he based the development of the observation interview on one fundamental principle. "We are all creatures of habit. If you expose a candidate to enough management situations in action, his basic attitudes, skills and knowledge are most likely to be revealed."

Mr. Joplin made the new methods available to each regional director in the following way. When a director asked for help in selecting a new area sales manager, Mr. Joplin suggested that at least four or five candidates be considered. A thorough analysis of each man's personal background and his production record was made. After this analysis had been completed, Mr. Joplin and a research man traveled to the local region to administer the aptitude tests and to conduct the observation interview. The general procedure was to work with two candidates each day, interviewing one in the morning, while the other was being tested, and reversing this process in the afternoon.

The typical interview was conducted by three men: the regional director, Mr. Joplin, and a research man or an associate director. (Exhibit 2 is the recommended interview procedure.) The candidate was brought into the regional director's office where he was told that the regional director would like him to complete some questionnaires and to have a "discussion" on various management problems. The candidate was told that the purpose of the day's activities was twofold: (1) to obtain the benefit of his ideas and experience on the development of the entire management team and (2) to get to know him better so that the regional director might aid him further in his personal development. He was also told that other outstanding staff managers in his region and in other regions were participating in these sessions. To avoid creating undue tension on the part of the candidate, no mention was made of the fact that he was a candidate for promotion to area sales manager. The fact that another man was in at the same time also tended to help in this regard.

After a brief, informal introduction intended to establish rapport, one of the interviewers started the procedure by asking the candidate to tell, in his own words, what he thought were the important qualities for the position of a staff manager (his own job). This became a self-projection, to some extent, and provided important clues to be explored in subsequent parts of the interview.

From this point, the candidate moved into what was known as a "life situation" but which was essentially role-playing. For example, the candidate would be asked to tell what he would say in taking over a new staff of agents whose production was low and whose general morale was poor.

Exhibit 2

For Confidential Use of
Regional Directors Only

OBSERVATION INTERVIEW

SELECTION OF AREA SALES MANAGERS

Step 1: We are very much interested in the job of staff manager and the qualities a man should have to perform this job successfully. You have had experience as an agent, have served as a staff manager and undoubtedly are well acquainted with many other staff managers. Based on this experience, we are wondering if you could tell us in your own words what you believe to be the most important qualities a staff manager should have to perform the job successfully.

Comment: This is an easy opening question and is designed to get the candidate talking readily and easily. By letting the sequence run for almost 15 minutes, we find in many cases the candidate runs out of ideas and in effect begins to describe himself. This provides clues for subsequent interview action.

Step 2: Let us assume that you were to take over a staff of six or seven agents. You find that the production of this staff has been below average and the general morale of the agents is low. The former staff manager was unable to cope with the situation and had to be transferred to personal production. You have met each of the agents individually in the area sales manager's office. You are now having your first staff meeting with them. What things would you endeavor to cover the group at this meeting?

Comment: This question is designed as an easy step into the "life situations" to follow. Also, it tends to have the candidate talk about his general pattern of management. This opens further leads for us to follow.

Step 3: As you undertake your work with this new staff, suppose you were to find that you had an agent with about 1½ years' service. In his first year he produced around $180,000 combined net paid-for, all branches. Since the turn of that year, his production has been falling off and the decline has been continuing. You notice his general attitude is somewhat depressed.

Comment: This question is designed basically to probe and bring to life his human relations skills under not too difficult circumstances.

Step 4: In canvassing with one of your agents you learn in the course of collecting in a policyholder's home that some new folks (the Joplin family) have moved in down the street about a month ago. The man of the house (Mr. Joplin) works at the new General Electric plant in town, having been recently transferred in from another state. You learn that they have two children—a girl eight and a boy four. They are buying the home in which they are living. This is all the information you can obtain. You are now leaving the policyholder's home.

Comment: This question is designed to probe again into the area of training. Here, however, we are trying to get some insight into his selling skill and his ability to coach men while in action. Many times this develops into a very complex situation where we work our way from the agent's car to the prospect's home (involving the prospect's wife) and later back to agency office to discuss results.

Step 5: As you work with this staff you find another of your agents who writes a good volume of premium business but very little ordinary. He is about 50 years of age and has about 18 years' service. He always keeps his premium in good condition. From what you can determine, the territory looks good for ordinary. An analysis of his ordinary record shows he's writing "policies."

Comment: This question is a combination of skills with particular emphasis on training. It tends to shed considerable light on his ability to analyze training needs, to develop a constructive program of action, and to motivate an agent.

Step 6: Suppose you have now been on the staff for about 1½ months. You notice that one of the agents is somewhat of a heckler in your Friday sessions. You also find that he talks to other agents outside the office and seems to be criticizing things you attempt to do. He has ten years' service as an agent and has constantly had a good production record. Currently he is the top man on your staff and among the first ten in the area agency. You feel his actions are causing other agents to take a negative attitude toward you.

Comment: This is strictly a human relations question at a more complex and difficult level. It also is designed to test his emotional stability and poise under stress.

The three interviewers acted as agents while the candidate made his hypothetical introductory talk and began to make plans to work with his staff.

Once the candidate was supervising this hypothetical staff, the role-playing moved along in approximately fifteen minute sequences, setting up life situations or role-plays in which the candidate worked with the interviewers on a typical agent-management problem. An example of such a problem as stated to the candidate would be:

"As you undertake work with this staff, suppose you find that you have a comparatively new agent with about 1½ years of service. You notice that in his first year he produced above the average in new sales. Since the end of that year his production has been falling off and the trend has been continuing. His general attitude is somewhat depressed. Suppose Bob were this agent. Just how would you handle this situation?" (Bob may be one of the research interviewers or the regional director.)

The action in the life situation was generally allowed to go on for about ten minutes. Then the interviewers used about five more minutes probing to find out such things as why the candidate approached the situation as he did, and whether he had had any similar situations in his experience, etc. The interviewers were instructed to be alert to note whatever stress might develop in the individual.

Usually a wealth of observation came to light as the candidate moved through six role-playing sequences.

As the observation interview came into greater use, a few limitations were noted. The two principal ones were that:

1. The general tone of the interview varied according to the personalities of the interviewers or role-players in the various life situations. Mr. Joplin attempted to develop a greater uniformity in the "pitch" of each interview, but just how seriously the personalities of the interviewers affected the interview was still hard to say.
2. The interview was based on seeing how the candidate would handle certain hypothetical situations. There was no way to measure whether or not the candidate revealed in the interview the attitudes or skills he would later employ on the job. It was merely felt that the assumption of a reasonably close relationship was a useful working hypothesis. This appeared to be sustained by later experiences in reviewing appraisals with the men.

The data from the personal background analysis, production records, tests, and the observation interview were brought together to make an appraisal based on the six basic factors. This was summarized in an Appraisal Summary, which also reviewed the man's situation and his production results.

Once a regional director received reports on all the men who were processed by this procedure he was in a better position to decide whom

to promote. With the others, he was in a better position to know in what areas they needed to be developed. In order to aid the regional director in this regard, an appraisal review method was prepared. This consisted of six basic steps:

1. Each candidate's area sales manager was interviewed by the regional director to see how well the appraisal checked with that area sales manager's understanding of the man; to find out what the area sales manager had done to develop the man; and to plan an appraisal review session.
2. An appraisal review session was then held for each man by his regional director with his area sales manager present. After rapport was established, the staff manager was asked to tell in his own words what he believed to be his strengths. The list usually ran from 12 to 15 items.
3. The staff manager was then asked to tell in what areas he was striving to improve (his weaknesses). After suitable nondirective probes this list usually ran to five or six items.
4. In the light of his own self-analysis, the candidate was asked to rate himself on the six basic factors in relation to all other top-flight staff managers he knew.
5. The candidate was then asked if he would like to see himself as others saw him. After receiving his consent, the regional director plotted in the review ratings on the same sheet on which the candidate had plotted his own analysis.
6. All differences between the candidate's ratings and the company's ratings were discussed and a plan was mutually worked out to help the candidate improve himself.

Mr. Joplin worked on the principle that one of the best ways to develop a man was through experience under a supervisor who was strong in an area or areas where he was weak. Regional directors who subscribed to this principle accordingly transferred men between area agencies or to other assignments to give them these experiences.

In some instances a man's capabilities were sufficient to warrant an immediate promotion. When a promotion was made, the regional director followed the new area sales manager and on the basis of the appraisal would try to strengthen him wherever possible.

After having processed 55 candidates in eight different regions Mr. Joplin made two statistical analyses.

The first revealed that for most candidates there was substantial correlation between the ratings given on the six basic questions. This was considered a significant indication that the procedures being used were rating the whole man rather than independent personality factors.

It was also found that there was little correlation between the over-all ratings and those achieved on the personality tests.

Commenting on these two analyses Mr. Joplin stated:

One question that might be asked is: What are the relationships between the judgments made on the various areas? We have run a table of intercorrelations on the ratings made for the six questions raised about the "total" candidate. The average intercorrelation is .48. It is clear we are not rating independent personality factors. It was not our intention to do so. We were looking at the whole man and the varying situations. Undoubtedly there is considerable overlap between situations. Some halo effect is also probably present.

Next, how do the over-all ratings compare to scores on personality tests? We compared our ratings based on the total case study, including the interview, to scores from the Guilford Zimmerman Temperament Survey. We have found only two correlations significantly different from zero. Skill in dealing with people correlated about .4 with the Survey's F scale, sometimes called agreeableness or friendliness. Our ratings of level of motivation correlated .3 with the Survey's measure of general activity level. It is clear that the judgments being made are not heavily swayed by the test scores and that they are describing something different.

In January, 1954, on the basis of applying the procedure to a total of 100 staff managers who had had outstanding production records, Mr. Joplin had two major findings.

First, only 20% of this group appeared to have all the abilities that regional directors felt were essential to qualify a man for an area sales manager's job. Another 35% needed development in one or more areas. The potential of the remaining 45% was doubtful to extremely doubtful.

In the light of these facts, Mr. Joplin believed that emphasis on selecting men at the last moment was not feasible. He was convinced that the company must develop potential area sales managers before it could select them.

Second, the production record of a staff manager, taken at face value, was a very unreliable measure of his ability. The record, good or bad, could have been the result of situational factors. He might have inherited a staff from a man who had been promoted to area sales manager, he may have had one or two capable agents on his staff to carry the load, or possibly he was favored by unusual economic conditions.

"We're finding that we have to assess a man's situation separately from his abilities in order really to understand what he can do. Apparently the old saying 'all that glitters is not gold' is true." Thus, Mr. Joplin reasoned, a staff manager's work was the product of the man interacting with his work situation. Therefore, in analyzing the man and the work situation it was necessary to consider the man's superior, his subordinates, and his market.

To illustrate, Mr. Joplin cited one man whom a regional director had brought in for appraisal.

At the time this man had one of the leading staffs in the territory. He had a nice personality and was well dressed. Our interview appraisal showed him seriously weak on most factors. Our test results later confirmed this.

Re-analyzing the man's production record in depth we found he had been appointed to a staff that had ranked 60th in the region and in the course of two years under his supervision it ranked 55th.

Since the regional director apparently liked the individual he transferred him to another staff which ranked eight and which became open when the staff manager was promoted to area sales manager.

Our man, apparently realizing this was his opportunity, began to work harder and raised the staff to number one position through his own sales.

Here is an example of where the situation was controlling and not the person.

By October, 1954, 143 staff managers had been processed, 16 men had been promoted to area sales manager and 23 had been moved into new assignments for further development.

"On those promoted," Mr. Joplin said, "we are following up on their records and interviewing them after six months, one year, one and one-half years, and two years as area sales managers. We endeavor to see what experience they've had and to get more insight into their problems. Similar material is gathered from their regional director. From this material we hope to refine and improve the entire process."

Mr. Joplin was troubled by the following problems:

1. What were the interacting effects of the interview? How accurately did the interview assess the individual with the many interacting influences present in the interview situation?
2. What methods might be used in establishing the predictive value of the appraisal? Mr. Joplin believed that this would involve a relative weighting by importance of each of the ability factors in addition to analyzing the situation into which each new area sales manager was placed.
3. Was the job defined correctly? Were all the important factors being considered?
4. How could he work most effectively with different regional directors, and differing job concepts all over the country?

Even after the regional directors had agreed verbally about the job concept, and had gone through the training program, they didn't shift their concepts automatically. Mr. Joplin wondered whether he was on the right track in trying to get all the regional directors to think pretty much alike rather than allow wide individual variations.

Following are the summary sheets used for the appraisal of Mr. Donald Morris, who was being considered for promotion. The first page is an appraisal summary based upon the work sheets which follow it. Each sheet represented one of the four selection approaches, summarizing respectively: (1) Mr. Morris' background. (2) Mr. Morris' production record. (3) Results of insurance information, managerial knowledge, intelligence and personality tests. (4) Ratings and information obtained from the observation interview.

Appendix A.

APPRAISAL SUMMARY

Name DONALD MORRIS Title STAFF MANAGER Area Agency SANDS POINT Region X

This summary serves to highlight the principal factors known at the present time about his RECORD, his SITUATION and his ABILITIES. Each factor is appraised comparing this man with all others regardless of Region. The basic information has been obtained from an analysis of his personnel record, production record, aptitude tests and the interview conducted.

** HIS RECORD **

STAFF PROGRESS - ___

[+]	Ordinary Policy Size -	UPWARD AND ABOVE REGIONAL AVERAGE EACH YEAR
[0]	CNPF Per Agent -	ABOVE REG AVG IN 1952 AND 1954 BELOW IN 1953
[−]	Agents Over Reg. Avg. -	2 OUT OF 6 AGENTS IN 1953 AND 2 IN 1954
[+]	Conservation -	BETTER THAN REGION IN BOTH NEW BUSINESS LAPSE AND 2 YEAR ORDINARY NB LAPSE

** HIS SITUATION **

SITUATIONAL ADVANTAGE - AVERAGE

[−]	Staff Inherited -	AT BOTTOM OF REGION-FORMER S.M. TRANSFERRED
[+]	Agents -	4 UNDER AGE 50 2 NEW AGENTS NO SERIOUS DISABILITIES NO Y-STAFF MANAGERS
[+]	Territory -	BETTER THAN AVERAGE EXPANDING - NEW HOMES
[0]	Distribution -	NO STAR PRODUCERS - BALANCED RECORD

** HIS ABILITIES **

REASONING ABILITY - B

[0] Analytical - (0) As observed in interview.

[+] Experience - (+) As observed in interview. (+) Years as Staff Manager 4 1/2.
(+) Detached operations YES. (+) New Agents appointed 2.
(0) Other Management Experience NONE.

[+] Capacity - (0) Formal education H S. (+) Informal education C L U.
(+) Reasoning Test 6.

[0] Stability - (0) As observed in interview. (0) Personality Test Score 22 (EMOTIONAL STABILITY).

EFFORT AND DRIVE - A-

[+] Energy Level - (+) Vitality as observed in interview.
(0) Personality Test Score 21. (+) Health condition O K. (GENERAL ACTIVITY)

[0] Attitudes - (0) Job Attitude as observed in interview.
(0) Insurance Owned $20,500.

[+] Past Action - (+) Nights worked as Agt. 3-4 (+) as Staff Manager 4.
(+) Self-Development HAS C L U. - NOW TAKING PART I L U T C.

[+] Incentives - (0) Number of dependents 1. (+) Attitude toward family FAVORABLE
(+) Any goals expressed TERRIFIC DRIVE TO ADVANCE.

Appendix B.

ADAPTABILITY - B

[0] Stability - (0) As observed in interview. (0) Personality Test Score 22. (EMOTIONAL STABILITY)

[+] Open-mindedness - (+) As observed in interview.

[+] Capacity to Grow - (+) Reasoning Test 6 (0) Vocabulary Test 5.

TRAINING ABILITY - D

[0] Sales Approach - (0) As observed in interview.

[+] Knowledge - (+) Life Insurance Information Test Score 70.

[-] Men Developed - (-) Progress of new Agents 2 - BOTH FALLING BELOW REG AVG.
(-) Effectiveness with older Agents 1 - BELOW REG AVG - TREND DOWN.
(-) Agents' use of Dollar Guide 1 Excellent 0 Good 1 Fair 4 Poor.
(0) Number of men promoted to Staff Manager NONE.

[-] Activity (-) General pattern of activity with his men 1 DAY.
(-) Degree to which he writes Debit 50% and Ordinary 60%.

[0] Training Skill - (0) As observed in interview.

HUMAN RELATIONS ABILITY - C

[0] Sensitivity - (0) As observed in interview.

[-] Knowledge - (-) Supervisory Opionnaire Test Score 43.

[+] Personality Impact - (+) As observed in interview. (+) Personality Text Score 21. (FRIENDLINESS)
(0) Outside Leadership NONE.

[0] Motivational Skill - (0) As observed in interview.

PLANNING ABILITY - D

[-] Emphasis - (-) As observed in interview.

[0] Agents' Planning - (0) Number Rating Excellent 1 Good 2 Fair 1 Poor 2.

[+] Debit Management - ( ) Irregularities. ( ) Underwriting practices.
(0) Other.

** GENERAL COMMENTS **

1 - HAS A GOOD MIND. LOT OF INSURANCE KNOWLEDGE. APPARENTLY HAS NOT DEVELOPED SKILLS FOR TRANSFERRING HIS KNOWLEDGE TO OTHERS

2 - SEEMS TO LACK MATURE INSIGHT INTO MEN AND HIS JOB OF MANAGEMENT

Date 10/15/54 Prepared by

Appendix C.

WORKSHEET ANALYSIS OF PERSONNEL BACKGROUND

Name DONALD MORRIS Title STAFF MANAGER Area Agency SANDS POINT Age 39

All available personnel records including ASR Reports, Training Consultant Reports, Disability Record, MIB Record, Agent's Agreement, and the Manager's Appraisal (Comb. 23024) should be reviewed. All pertinent facts should be recorded as provided below. Any additional information needed should be obtained during the interview.

New Life Experience

Yrs. as Agent 10 Largest CNPF $371,000

Yrs. as Staff Mgr. 4 Largest Sale $27,500

Any Detached Experience YES Group Insurance NONE

Yrs. as T.C., A.S.R. or R.S. NONE

New Agents Recruited (Last 3 Yrs.) 2

Educational Experience

Formal Education H S GRAD

Self-Development RECEIVED C L U DESIGNATION

ENROLLED N L U T C

Insurance Owned

Total and Amount of Group $20,500 - ($10,000 GROUP - $5000 ORDINARY -- $4,000 INT. ORD - $1,500 STAFF GROUP)

Family

Married Status MARRIED - 1 DEP

Report Attitude FAVORABLE

Living Standard OWNS ONE FAMILY HOUSE AND OTHER INCOME PRODUCING PROPERTY

Net Worth $11,500

Health

Disability Record NO SERIOUS DISABILITIES

MIB Record O K

Present Condition APPARENTLY O K

Appendix D.

Leadership

Outside Organizations: LIFE UNDERWRITERS ASSOCIATION

Talks Given: SOCIAL SECURITY - INCOME FOR FAMILY - PROGRAMMING

Military: COAST ARTILLERY - ARMY - ENTERED AS PRIVATE - DISCHARGED AS TECH SARGEANT

Debit Management

Serious Irregularities: NONE

Underwriting Audit: EVERYTHING OK

Service to Policyholders: NO RECORD OF ANY COMPLAINTS

Life Experience

Parents' Family: FATHER CARPENTER - HAD 1 SISTER OLDER

Lessons Learned: (1) IMPORTANCE OF HARD WORK (2) HONESTY

Early Ambition: WANTED TO ENTER BUSINESS IN ANY CAPACITY

Hobbies and Sports: FISHING - GOLF - LIKE TO WATCH BASEBALL AND WRESTLING

Training Needs: (1) WOULD LIKE MORE TRAINING IN HOW TO MOTIVATE AGENTS, AND (2) HOW TO CONDUCT MEETINGS

General Comments

ME W R JONES, HIS MANAGER RECOMMENDS HIM FOR PROMOTION WITHOUT ANY RESERVATIONS

REPORTS FROM TRAINING CONSULTANTS AND OUR AGENCY SERVICE REPRESENTATIVE ARE ALL FAVORABLE.

Appendix E.

WORKSHEET ANALYSIS OF PRODUCTION RECORD

Name DONALD NORRIS Area Agency SANOS POINT Region X

HERE IS THE OVER-ALL RECORD -

	1952	1953	1954		
Average No. of Agents	50	56	60		
Staff CNPF Per Agent	143,944	144,531	131,069		
Regional CNPF Per Agent	109,731	160,458	102,131		
Regional Rank	11	34	9 (JUNE '54)		

Let's examine his "Staff Manager's Three Year Record" to see...

WHAT HE HAS ACCOMPLISHED.....

With New Men?	APP'D 5/11/53	APP'D 6/18/52		
Name of Each New Agent (Last 3 Yrs.)	J.N KIRK	J.N JOYCE		
CNPF for Each in First Year (1953)	97,910	111,698		
In Subsequent Years (1954)	79,546	55,836		
Reason for Final of Former Agents	NEW DEBIT	RESIGNED - OTHER WORK		
With Older Agents?	(AGE 55)			
Names and Ages Over 50	CR SMITH			
CNPF for Each Last Year	36,305			

With Ordinary Policy Size?

Trend in Relation to Region: ABOVE REG AVG. PAST 3 YRS.

With CNPF Per Agent?

Trend in Relation to Region: WELL ABOVE REG AVG IN '52 AND '54. BELOW IN '53

With Conservation?

Ord. 2-yr. Lapse Rate with Region (1953): STAFF 11 VS REG 21

Debit NB Lapse With Region (3 Yrs.): BETTER THAN REGION

With Over-All Growth of Men?

Names With CNPF Greater Than 110% Of Regional Average	RILLING	CRANDALL
	179,947	224,728

With Agents Developed For Promotion?

Give Name, Date, Current Rank: NONE

Appendix F.

HOW HAVE "SITUATIONAL FACTORS" HELPED OR HINDERED HIS RECORD?

Area	1952	1953	1954
Agency Situation			
Trophy Standing	74	14	132 (JUNE 54)
Managers Promoted	NONE		
Standing of Other Staffs	15, 31, 47		
Staff Standing			
Upon Appointment to Present Staff	AT BOTTOM OF REGION		
Reason for Replacing Former S.M.	HICKMAN - TRANSFERRED TO NEW STAFF		
Results With Any Previous Staffs	NO PREVIOUS STAFF		
Age of Agents			
Number over 50 and Average Record	1 - BELOW AVERAGE		
Number Younger and Average Record	5 - 2 ABOVE AVG - 3 BELOW		
Economics of Territory			
Normal, Expanding, Contracting, etc.	EXPANDING - NEW HOMES		
Comment as Compared With Most Staffs	ABOUT SAME		
Agents Time Loss			
Open Debit Weeks Last Year	NONE		
Weeks of Agent Disability Last Year	NONE		
Unusual Agents			
Names and Production	NONE		
Personal Production	1952	1953	1954
Amount Each Year	9,000	2,000	2,500

ANY COMMENTS NOT COVERED SO FAR:

MANAGER ATTRIBUTES DROP IN PRODUCTION IN 1953 TO THE ADJUSTMENTS REQUIRED IN CREATING A NEW DEBIT AND HIRING AND TRAINING AGENT KIRK IN MAY 1953 POINTS TO 1952 AND 1954 RECORD AS PROOF STAFF MANAGER MORRIS HAS "REALLY GOT IT"

Prepared By _____ Date 10/15/54

Appendix G.

TEST PROFILE

AREA SALES MANAGER CANDIDATE

NAME DONALD MORRIS DISTRICT SANDS POINT DATE TESTED 10/15/54

Tests	RATING			
	Below Average	Average	Above Average	
Life Insurance.....	50 & below	51-58	59 & over	70
Supervisory Opinionnaire, RR.....	49 & below	50-56	57-67	43
Reasoning.....	1-3	4,5	6, 7, 8, 9	6
Vocabulary.....	1-3	4,5	6, 7, 8, 9	5
Personality				
General Activity	18 & below	19-24	25-30	21
Emotional Stability	20 & below	21-25	26-30	22
Friendliness	16 & below	17-20	21-23 24 & over	21

Appendix H.

INTERVIEW REPORT - Section A

Name DONALD MORRIS Area Agency SANDS POINT Interviewer (COMPOSITE) Date 10/1/54

- Ratings On Specific Aspects of Ability, Skill and Personality -

ANALYTICAL: Did he ask questions? Seek facts? Stay on subject? Refrain from impulsive decisions?
Unfavorable | Neutral | Favorable — X — = 0

USE OF EXPERIENCE: Did he seem familiar with the problems? Have ideas to contribute? Know what needed to be done? Never at a loss for ideas?
Unfavorable | Neutral | Favorable — X — = +

STABILITY: Was he poised in the interview? Willing to tackle problems? Take up situations realistically? Remain calm and unflustered? Seem confident throughout interview?
Unfavorable | Neutral | Favorable — X — = 0

VITALITY: Was he outwardly enthusiastic? Optimistic in his thinking? Seem to have plenty of stamina? In good physical condition?
Unfavorable | Neutral | Favorable — X — = +

JOB ATTITUDE: Does he believe in his job? Recognize it as building of men? Accept responsibilities? Express positive attitudes about Company?
Unfavorable | Neutral | Favorable — X — = 0

OPEN-MINDEDNESS: Was he humble about his abilities? Willing to accept other ideas? Desire to learn? Frank about weaknesses?
Unfavorable | Neutral | Favorable — X — = +

SALES APPROACH: Did he use clear verbal images? Find responsive note? Show resourcefullness? Create favorable impression for himself and Company?
Unfavorable | Neutral | Favorable — X — = 0

TRAINING SKILL: Did he determine what Agent knows? Tailor his ideas to Agent's needs? Motivate Agent to change? Rely solely on showing? Sell his way only?
Unfavorable | Neutral | Favorable — X — = 0

SENSITIVITY: Did he sense the feelings of others? Say things which rubbed wrong way? Listen without interrupting? Pick up cues? Ask about attitudes?
Unfavorable | Neutral | Favorable — X — = 0

PERSONALITY IMPACT: Did he create a favorable initial impression? Warm and friendly? Mature? Would like to work for?
Unfavorable | Neutral | Favorable — X — = +

MOTIVATIONAL SKILL: Did he bring into play various motivating ideas, Prestige? Material needs? Pride? Money? Record, etc.? Things Agent wants versus his own personal wants? Able to enthuse?
Unfavorable | Neutral | Favorable — X — = 0

PLANNING EMPHASIS: Was he aware of planning as an important function? Were his own activities organized? Use planning in life situations? Strive to get facts in advance?
Unfavorable | Neutral | Favorable — X — = —

GENERAL COMMENTS

Appendix I.

INTERVIEW REPORT - Section B

Name DONALD MARRO Area Agency SANDS POINT Interviewer COMPOSITE Date 10/15/54

Information Reported By Candidate On His Staff Operations and Experience
Following Sequence of "Standard Interview Guide"

Code and Factors

G 1. Qualities — (1) GETTING ALONG WITH MEN (2) LEADERSHIP (3) TRAIN BY SHOWING MEN HOW TO DO (4) KEEP PACE THRU EDUCATION (5) HONESTY AND INTEGRITY.

		SMITH	BROWN	CRANDALL	KILLINS	JOYCE*	KIRK*				
	Age	55	50	47	36	35	37				
T	2. Dollar Guide	POOR	POOR	POOR	E	P	F				
T	3. Programming	POOR	POOR	G	G	F	F				
P	4. Planning	POOR	G	E	G	P	F				

T 6. Business Written _____ % Debit 50 % Ordinary 60 %

S 7. Notes on Agents — *2 NEW AGENTS - NO - X - STAFF MANAGERS - NO HEALTH PROBLEMS (1) DOESN'T COOPERATE WITH ME (2) PROCRASTINATES

T 8. Promotions Made — NONE Men Qualified CRANDALL - EXCEPT FOR AGE FACTOR

HS 9. Union — ONLY SMITH NO GRIEVANCES

HR 10. Agents Finaled — TRYING TO TALK JOYCE OUT OF BUSINESS

E 11. Nights Worked — AS AGENT - 3-4. AS STAFF MANAGER - 4

PT 12. Activity — 1 DAY WITH EACH MAN - ADVANTAGES (1) NECESSITY TO GET PRODUCTION (2) KEEPS MEN SHARPER.

EG 13. Functions Liked — (1) CANVASSING WITH MEN (2) MANAGING MEN

EG 14. Functions Disliked — (1) AUDITS (2) ROUTINE

E 15. Career Job — NO - WITH SOME EFFORT COULD MAKE MORE MONEY AS AGENT

E 16. Source of Drive — TERRIFIC DRIVE TO BE SUCCESS AND BE PROMOTED TO MANAGER

H 17. Social Relations — LIKES FRIENDLY RELATIONSHIPS BUT NOT TOO INTIMATE.

S 18. Territory — CONSIDERABLE DISTANCE TO COVER. LOT OF NEW HOMES.

Appendix J.

Code and Factors		
R	19. Experience	CREATED 1 DEBIT - WAS HAD DETAILED EXPERIENCE
S	20. Staff Inherited	AT BOTTOM OF REGION - HICKMAN TRANSFERRED TO NEW STAFF
G	21. Lessons From S.M.	(1) WORK WITH MEN IN FIELD (2) LEARN ALL YOU CAN ABOUT BUSINESS
G	22. Lessons From Manager	MANY VARIED MANAGERS (1) THEY ALWAYS WANTED PRODUCTION (2) THEY WANTED MEN TRAINED
G	23. Lessons From Parents	(1) IMPORTANCE OF HARD WORK (2) HONESTY
G	24. Parents - Family	FATHER CARPENTER - HAD 1 SISTER OLDER.
RE	25. Ambition	WANTED TO ENTER BUSINESS IN ANY CAPACITY
E	26. Health	NO SERIOUS DISABILITIES - APPARENTLY OK
G	27. Most Difficult Problem	WINNING OVER FRIENDSHIP OF MEN.
G	28. Suggestions	CO VERY PROGRESSIVE, BUT THROW TOO MUCH AT US
G	29. General	(1) SEEMS TO WIN MEN OVER BY PERSONALITY RATHER THAN ABILITY TO MANAGE (2) NO EVIDENCE OF ABILITY TO TRANSFER KNOWLEDGE AND DEVELOP MEN (3) TERRIFIC DRIVE: WOULD BE WELL TO EXPLORE WHAT HAPPENED 5 YRS AGO (CLAIMS HE FOUND HIMSELF 5 YRS AGO) (4) HAS NO REAL CONCEPT OF THE TOTAL JOB IN TERMS OF EACH FUNCTION AND ITS PURPOSE IN MAN BUILDING COMPLETELY PRODUCTION ORIENTED WITHOUT FULL UNDERSTANDING OF NEED TO DEVELOP MEN WHO IN TURN MAKE RECORD

70. TABER PRODUCTS COMPANY

The Taber Products Company, founded in 1863, was by 1955 one of the world's leading manufacturers of specialized paper products. Production facilities extended from coast to coast. Sales from 1936 to 1953 increased 950%. In the latter year, net sales billed totaled $148 million. Total sales revenue in 1954, including recently acquired subsidiaries, was expected to approximate $195 million.

Retail Sales Organization. Taber products fell into two categories: home or consumer products and institutional products. The Taber salesforce was organized on a market basis; therefore, there were two separate sales departments: retail and institutional. The former accounted for from 75%–80% of the company's total sales volume. The retail sales manager, in charge of the retail sales department, reported directly to the vice president in charge of distribution. The retail sales manager subdivided his over-all responsibilities among 14 division managers who were located strategically throughout the country. Each division manager was a sales manager in his own right. His responsibilities were subdivided in turn among from four to eleven district managers. In metropolitan areas the district manager had from one to twelve retail salesmen who performed missionary functions in stimulating the sale of Taber products. Independent retail stores purchased Taber products through wholesale distributors, while chain stores obtained their supplies from chain warehouses, and were serviced by the headquarters of the organization.

In small areas the district manager did both missionary work at retail and direct selling to wholesalers as well. In March, 1955, there were 97 districts with a total salesforce of approximately 225 men.

The sales organization was reimbursed on a salary plus bonus and expense arrangement. The bonus was tied in with specific performance on contest promotions. Hiring the sales personnel was consummated at the home office by the sales personnel manager and his staff.

The location of the division and district offices was based upon population concentration, trading areas, and other geographical considerations.

The retail sales manager had direct line control over all products and activities of his salesforce. Because it was believed necessary to maintain flexibility at the divisional level in coping with the problems peculiar to the various geographic areas, Taber had not enumerated specifically the responsibilities and duties in any one organizational doctrine. The company, however, did rate the individual districts into five classifications. These classes were determined by a point system which weighted such factors as volume, number of salesmen, and whether the district manager was located at the divisional office.

New England Sales Division. The New England sales division will be used as a basis for describing the duties of the various organizational levels. The divisional sales manager for New England had his headquarters in Boston. Under this divisional manager were six district managers and ten retail salesmen.

The New England territory was made up as follows: The divisional sales office and manager were located in Boston. There were district managers in Providence, with one salesman; Worcester, one salesman; Boston, six salesmen; Pittsfield, no salesman; Hartford, two salesmen; and Bridgeport, no salesman.

Job Descriptions

Retail Salesmen—To secure and maintain a high level of distribution, as well as to promote good will, and secure dealer support for the company's programs, to provide superiors with desired reports when and in the manner requested; and to prepare for jobs with greater responsibility.

The retail salesman's job consisted primarily of selling to retail grocery outlets. "Missionary" orders secured by the salesman were processed through the necessary channels. A small percentage of total production was sold by other outlets—department, drug, hardware, and variety stores—but the grocery trade provided the prime means of distribution.

Exposure to the market was essential to the company's success; thus the need for mass distribution in high traffic or volume outlets was essential. It was known that approximately 25% of the retail grocery outlets handled 75% of the total food sales volume. For Taber products, the same coverage provided exposure to a somewhat higher share of the specialized paper products market; 20% of the stores accounted for 78% of the company's retail sales. All retail grocery stores were classified as to size and type for the entire New England division.

In the Boston district, the retail salesmen were assigned specific areas and were responsible to the district manager for a predetermined volume of sales from the wholesaling channels. This direct selling function was normally executed by the district manager, but in line with the decentralization of control and for training purposes, it had been delegated to the retail salesman—the theory being that by the time a retail salesman had finished his tour in this capacity he would have been exposed to all phases of the next higher job in the sales organization.

The merchandising responsibility of the retail salesman included securing displays, promotional effort in the form of tie-in advertising, and the maintenance of favorable shelf position and space. Servicing dealers with ideas, information, programs, merchandising aids, and shelf stocking were means of carrying out these responsibilities.

Finally, each salesman was charged with developing a thorough knowl-

edge of all aspects of this job, his superior's job, and developing within himself a keener insight of the sales operation. Because of the expanding nature of this company, tremendous emphasis was placed on self-improvement in order to qualify for promotions.

> *District Manager*—To sell all present and prospective customers in his territory who are qualified to buy directly from the mills; to approach retail outlets in the manner of a missionary salesman where the situation so dictates; to supervise, develop, train, and to evaluate the retail salesman; to develop and control such administrative functions as procedures, programs, reporting, budgeting, and recruiting; to submit suggestions designed to improve the effectiveness of the operation; and to prepare for future executive positions by working closely with the divisional manager in order to gain an understanding of his job.

Under the supervision of the divisional manager, the district manager had relatively autonomous control over his territory. Responsibility varied, however, with the size and potential of the area. In the New England division, smaller potential territories such as Pittsfield and Bridgeport were assigned to a district manager with no retail salesmen—the manager performed both retail and direct selling functions. The greatest responsibility at the district level was carried on in the divisional headquarters in Boston. The district manager in this instance had six retail salesmen assigned to him, and he was expected to assist the division in any manner that would further the company's position.

A primary function of the district manager was to insure that adequate stocks of all brands were on hand at the wholesale and chain warehouses, and in turn, that the ultimate consumer was exposed to these products in the various retail outlets in his territory. This relative "in stock" position was essential in order to attain the sales volume assigned to the territory.

Increasing sales volume through the creative development of new ideas, procedures, and programs was an important responsibility in this respect. Customer cooperation in the form of promotional effort was also a requisite for reaching this goal. Closely related to the responsibility for over-all sales achievement was the training and supervision of the men assigned to the district manager. He continually had to develop the efficiency of his men, maintain morale at a high level, and motivate his men to increase their efforts. Several ways of accomplishing this were through sales contests and meetings, by setting a personal example, and by keeping the salesmen informed of the opportunities that existed in the organization. Coordinating the efforts of the salesmen into an integrated plan that dovetailed with the immediate and long-range goals of the division and the company was also required. Satisfactory liaison with other departments of the company also constituted an important part of the district manager's responsibilities. He

shared the responsibilities for recruiting new salesmen with the divisional manager and the sales personnel manager. In addition, the district manager was expected to secure maximum results while staying within budgeted expense limits. Administratively, he was expected to maintain the necessary records, submit necessary reports, and make sales analyses required by his superiors.

Divisional Manager—To promote the general interests and objectives of the company through the supervision and coordination of the activities of his personnel, within the policies of the company; to maintain high level contacts with major customers; to formulate divisional policies, plans, programs, and procedures; to train, develop, and evaluate his subordinates to the end of accomplishing the goals set forth for the district managers.

The primary responsibilities of the divisional managers were the composite of those for the district managers and the retail salesmen; these included total sales volume, economy of operation, training of subordinates for greater responsibility, recruiting, and developing of sales policy.

In addition to his executive position on the sales staff, the divisional manager was responsible for participating in formulating over-all company policy. In this respect, as well as with his other duties, the division manager was expected to coordinate his activities with all the company departments involved.

The administrative phase of the division manager's operation included running the division office, evaluating reports, and submitting reports such as the quarterly report on achievement of the objective set, and a semiannual review of his personnel and their progress.

Though a divisional managership was immediately subordinate to the national retail sales manager, advancement was possible from smaller to larger divisions, and to positions in other departments of the business. The divisional manager was, therefore, expected continually to complement his already proven executive abilities.

Division managers were brought together at least twice a year to what was called the "divisional managers' committee" which assisted in policy formulation. At the same time these men were schooled on such things as company objectives, sales selection goals, standards for evaluation of performance, etc. These conferences afforded management an opportunity to clarify the things they desired, as well as to provide the divisional managers with an opportunity to communicate their desires and beliefs to management.

Early in 1955, Mr. Fred Farrington, the retail sales manager, was studying various alternative methods by which his company might maintain and improve its competitive position by increasing sales through retail stores. The Taber organization faced a new type of selling problem. Mr. Farrington

knew that considerable increases in productive capacity, which were forthcoming, would mean that many of his salesmen would be selling in a buyers' market for the first time. The production increase was part of the company's long-range plan to double its sales in the coming five years. Since the beginning of World War II the sales department had always been able to oversell the company's productive capacity despite continual increases in its manufacturing plant.

Although Taber had enjoyed continual growth, financial restrictions had never allowed the company's production facilities to catch up with demand. With new financing, the total output of the company would take a relatively large forward step. The salesforce had been able to cope with advances in output in the past by concerted sales effort prior to the production increase.

The Taber salesforce was highly regarded in the consumer products field, averaging sales of approximately $700,000 each per year. On the basis of return per dollar expended, the Taber salesforce had few peers. Although an oversold condition existed for Taber products, salesmen were rotated into competitive markets which did exist in order to give each man competitive selling experience.

The era of shortages forced the division managers to spend a great deal of time on administrative detail. Mr. Farrington believed that the change from a sellers' market to a buyers' market should result in a shift in the division manager's job from administration to aggressive selling. During periods of shortage, the allocation of available merchandise and development of priority schedules for shipping consumed a great deal of the division manager's time. Another time-consuming activity in an oversold market was pacifying disgruntled customers.

Although the division managers maintained satisfactory contact with major customers, they were not necessarily the type of association which would be most useful in a period of aggressive selling. The regularity and frequency of these chain calls varied with each division manager. Mr. Farrington believed that division managers, to meet the challenge of a buyers' market, would have to develop further their contacts with major customers, particularly chain organizations. The division manager would also have to assume direct responsibility for sales volume of these customers. In this manner, Farrington felt the division managers could gainfully occupy their now available time "selling" to chain headquarters. As a result more experienced men would handle these "key" accounts.

A complicating factor was that many chain operations were instituting a new policy which forbade missionary salesmen from getting in touch with their retail units. The only salesmen allowed in chain outlets in many instances were those companies making store-door deliveries.

Taber had experimented with store-door delivery in certain areas and found that the costs of this service were entirely too high. The company

had incurred a cost equal to 1½% of sales revenue for store-door deliveries in the Los Angeles area. Furthermore, some chains had gone so far as to forbid store-door delivery entirely. Therefore, Mr. Farrington doubted that this would provide a satisfactory means of entry into retail chain units. Further, because of the high cost involved, to attempt such a service on a nation-wide basis would be economically unjustifiable.

Proposals. At the present time, Mr. Farrington was considering three proposals which he thought might help solve his problems. The first alternative entailed creating four regional sales managers. These men would report directly to the retail sales manager, and they, in turn, would have all 14 division managers reporting to them. The second proposal was to appoint two assistants to the sales manager, each of whom would have seven division managers under his control and supervision. The third recommendation involved the adoption of a "by market" organization.

Each of these alternatives would aid the retail sales manager in maintaining closer relations and control over the divisions. With 14 division managers reporting to him, Mr. Farrington had been unable to keep as close a contact with the field organization as he would have liked. It was hoped that each of these alternatives would provide closer liaison between division operations and the home office as well as reducing the over-all load on the retail sales manager. The pending change in the selling situation would relieve the division managers from the heavy administrative load and would permit them to utilize this available time in field sales activity.

Plan #1. Under the first proposal each regional manager would be responsible for administrative details including salary administration, recruiting and selection of salesmen, sales promotion, advertising planning, and the general supervision of his region. The division manager's job would no longer include the above administrative functions. In their place, the division managers would be given actual or direct sales volume responsibility for his area and would be required personally to maintain contact with the chains in his territory. A monthly review of sales performance and idea-selling to improve upon past sales results would be the principal objective of the division manager's chain store contacts.

The regional managers would call upon the division headquarters of large national and regional chains. In assuming the duties and responsibilities of regional and divisional chain headquarters contact, the regional managers would in large measure be taking over functions previously performed by the division managers. Likewise, the division managers by taking direct responsibility for branch level chain contact would be performing activities previously carried out by the district managers. District managers, consequently, would be free to spend additional time in the field with their men and with other customers.

Mr. Farrington feared that the division and district managers would look

upon their new duties as something of a demotion. Actually, these jobs had been upgraded in the past. Under this plan the retail sales manager believed he could meet the anticipated selling situation by providing a higher type service to the larger chains and by insuring that the division managers would make the necessary transition from an administrative to a "selling" role.

The retail sales manager had originally intended that division managers approach only chain offices in their headquarter cities. More recently, however, he began to think that division managers should travel throughout their divisions picking up all key chain customers rather than leave them to younger and less experienced district managers. This added travel would entail an even greater change in the division manager's job.

A regional organization was tried by Taber in 1936. However, the company's volume at that time was not great enough to warrant this added layer of supervision and was, therefore, eliminated.

Of the 14 division managers, only five had been in this capacity prior to 1940. The balance had been promoted to this capacity since the end of World War II. However, the division managers averaged about 20 years per man with Taber. A review of the experience level of the district managers indicated that approximately 75% of them had come into these positions since 1946.

The cost of instituting the regional managers into the organizational structure would approximate $135,000 per year. Of this total, almost 85% would be fixed in the form of salaries, rent, and so forth. The balance was semivariable in that travel expenses accounted for the bulk of this anticipated expenditure.

The alternative being considered by Mr. Farrington was to appoint two assistant sales managers, each one responsible for seven division managers. Although both of these assistants would work out of the home office, each would have a "leg man" who would spend most of his time in the field supervising and controlling divisional activity and visiting the divisional headquarters of major chains.

Mr. Farrington believed that the division managers were less likely to resist this second plan since the changes would be less severe and more subtle than in the first alternative. However, not as much of the administrative burden would be lifted from the division managers and they might tend to continue their present routine and activity.

Under the first plan the division managers would be relieved of responsibility for recruiting, selecting, training, and developing salesmen as well as the administrative coordination between the division office and the home office. None of these duties would be lifted under the second plan.

Plan #2. The second plan would reduce the retail sales manager's work load and span of control, but it would not assure the division managers' assuming responsibility for chain sales. Since it was believed essential for the

division managers to assume chain sales responsibility themselves, it would be necessary under this proposal for management to "sell" the division managers the idea that they would soon have available time to carry out this work. Furthermore, the division managers would have to be convinced that this change was absolutely necessary to meet the challenges of increased production.

Plan #3. The third proposal involved setting up two assistant sales managers, one responsible for chain sales and the other for independent sales. Reporting to these two men would be the division managers. Both reporting and responsibility for performance would be along the line of "type of customer"—chain or independent. The assistant sales manager, chain sales, would maintain contact with all national and regional chain headquarters. The division managers would be responsible for contact and relations with division headquarters for these same chains. Within each division, the position of "division chain sales manager" would be created. These men would see all major chain warehouses in each division and would be directly responsible for sales volume to the division managers. The division managers would, in turn, be responsible to the assistant sales manager, chain sales, for chain volume and to the independent sales assistant for sales to all other customers. The district managers would continue to include in their coverages all stores Taber could call on. They would continue to report to the division managers but they too would be specialists by type of customers—independents.

It was believed that this proposal might solve the retail manager's problem without jeopardizing the morale of the organization. The assistant sales managers should be able to supervise adequately and control the division managers because of the specialized nature of their functions. The retail sales manager would be free for planning, evaluation, and the other facets of his assignment, having but two men reporting directly to him who could be held completely responsible for their performance. The divisional chain representatives would be selected from the most qualified and experienced "key" district managers. They would be second man in the division, and would be "in training" for promotion to division manager. It was believed that these men by the nature of their assignment would be committed to performance. To reach their respective objectives, they would have to develop contacts with chain supervisors in addition to branch level buyers, advertising managers, and sales managers.

As Mr. Farrington saw it, some action would have to be taken in order to sell the rapidly increasing production and to meet the company's ambitious sales objectives. Concerning the three alternatives which were being considered at this time, the sales manager wondered which proposal would best achieve the necessary selling effort without demoralizing his spirited sales

organization. He also pondered the possibility of some other program that he had not considered to cope with the problems facing him.

71. BATTON OIL COMPANY. Personnel Problems

In the fall of 1946, final settlement of the case of Joseph DeSoto was referred to the vice president in charge of sales of the Batton Oil Company. While DeSoto's history was no different from the general run of personnel problems in the division, his case which had caused one of the company's division managers considerable trouble during the previous four years assumed important proportions because he had succeeded in attaining the position of station manager in a large eastern city served by the company.

Joseph DeSoto was hired as a service station salesman by the Batton Oil Company in April, 1934, after an unsuccessful career as a specialty salesman. Through perseverance and the display of a high degree of personal salesmanship, he was eventually promoted through the service station positions of cashier and assistant manager to manager, in 1942, of a station which executives considered the best in the city. About this time, his superiors discovered that his personal salesmanship applied only to a select few and that he could not resist the temptation to argue with the majority of customers. Through this type of leadership, station salesmen gradually became antagonistic toward most of those who traded at this particular location, and DeSoto consequently found himself surrounded by a poor organization.

In 1945, after several attempts to solve the problem at the level of station supervisors, both DeSoto and his supervisor were called in by the division merchandising manager who was in direct charge of station personnel. The manager explained to DeSoto that he was losing the respect of the men under him and that the number of customer complaints recently received called for some sort of remedial action. DeSoto resented this reprimand and felt that he was being singled out for criticism; nevertheless, he returned to his job and for a brief time to a certain extent tried to improve his performance. Throughout the early part of 1946 several complaints were passed along to the division manager by one of the firm's top executives who had learned from friends of the discourteous service at this station. This situation together with the fact that the station, although rated best in the city, ranked fourth in sales volume caused the division manager again to call DeSoto, as well as his supervisor and the merchandising manager, into his office late in 1946. The division manager admitted the company's error in making DeSoto a station manager and explained that something would have to be done in view of the fact that the station organization had deteriorated and gasoline volume was far from satisfactory. He then gave DeSoto his choice of accepting a position as assistant manager of another station or resigning from the firm with payment of three months' salary. The first alternative

was a blow to DeSoto's pride and since his family doctor had advised that a change of climate would improve his health, he decided to resign.

Under a company policy that all dismissal wages had to be approved by top management, the case settlement was forwarded to the vice president for final approval. After due consideration of the man's record and the various dismissal wage levels,[1] the vice president, in consultation with the president, approved the terms of the resignation although there was some question as to whether or not the dismissal wage should have been higher.

Exhibit 1. BATTON OIL COMPANY. Table of Special Allowances. All Employees

Years of service	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Age	Week's pay																			
25	2	2	2	2	3	3	4	4	5	6										
30	2	2	2	2	3	4	5	6	7	8	9	10	11	13	15					
35	2	2	2	3	4	5	6	7	8	9	11	13	15	17	19	21	24	27	29	32
40	2	2	2	3	4	6	7	8	10	12	14	16	19	21	24	27	30	33	38	42
45	2	2	2	3	5	6	8	10	12	14	17	20	23	26	30	34	38	43	47	52
50	2	2	3	4	5	7	10	12	14	17	21	24	28	32	37	42	47	52	52	52
55	2	2	3	5	7	9	11	14	17	21	25	29	34	39	44	50	52	52	52	52
60	2	2	4	6	8	10	13	16	20	24	29	34	40	46	52	52	52	52	52	52
65																				
70	Regular annuity plan applied																			

In analyzing this particular case, the division manager was convinced that, had a proper appraisal of the man been made by the previous division manager, DeSoto might still be working for the company. While he did not have the ability to manage a station, with proper supervision he would have made a good station salesman. His failure as a station manager was ascribed partially to the firm's method of compensation. Because station managers received 7% of the total sales of all items except gasoline in addition to a base salary, the division manager believed that DeSoto had oversold many customers in an effort to build up his commission earnings. For this reason, personal salesmanship often turned into high-pressure selling which, together with DeSoto's argumentative nature, repeatedly antagonized patrons.

72. LUDWIG MACHINERY COMPANY. Personnel Problems

Mr. Wesley Hayes, assistant general sales manager of the Ludwig Machinery Company, a manufacturer of machine tools, had long believed that the personality of a man, who was to be district manager for the firm, had to differ from that of a salesman. Prior to World War II, the company had

[1] The company had no fixed dismissal bonus schedule, but did have an unofficial one, used for reference only, which related the amount of the bonus to the years of service (Exhibit 1). Theoretically, if an employee was dismissed for cause he was not entitled to a dismissal wage, but because DeSoto was considered loyal, faithful, and a good worker, executives believed that such a wage was in order.

distributed a large part of its products through dealers and had employed only a few salesmen, some of whom were "key" men who had been with the company for several years. In 1944, Ludwig adopted a policy of selling direct, at which time it established a larger selling and service organization with branch showroom offices, each having a staff consisting of salesmen, service men, and several stenographers and clerks. It was the company's attempt to award outstanding salesmen by promoting them to branch management positions that resulted in a serious personnel problem requiring a great deal of Mr. Hayes' attention in the fall of 1946.

John Hargraves, who had been with Ludwig for over 25 years, developed into an outstanding salesman during his period of service and was a most valuable man to the company. Shortly after the end of World War II, he was made a district manager, one of six in the firm, and was responsible for the Chicago office which was headquarters for a district accounting for 30% to 40% of total sales volume. Before assuming this position, Hargraves had been a senior salesman supervising two or three junior men. While the supervisory duties were not too much for a man who sales executives believed was past his prime at 55, he had shown signs of weakness in picking and training "strong" men. After his promotion, he had many more salesmen under his supervision as well as office personnel and a showroom to handle, and a heavier postwar demand for the firm's product. Experience had shown that he was unable to cope with the new requirements. After being given every chance to prove himself during the first year of his new job, Hargraves, in Mr. Hayes' opinion, turned out to be a complete failure and was told this by the general sales manager. However, he refused to accept this conclusion and, while unable to fill the position satisfactorily, he nevertheless wanted the responsibility and prestige that went with it.

Company executives believed him a valuable man in other positions not requiring the degree of administrative ability needed by a district manager and were anxious to reach some solution which would satisfy Hargraves and retain him. The fact that he was "fouling up" his part of the organization made an immediate decision imperative. Mr. Hayes believed there were several ways of handling the situation and proposed the following alternatives as the most practical: (1) The company might give Hargraves a title carrying some degree of prestige, such as vice president in charge of special accounts, and give him a list of customers that he might work on exclusively. Since he was a good salesman, he might be of the most service to the firm under such an arrangement. (2) Hargraves might be given a vacation for 5 or 6 months during which time a strong manager might be brought in to straighten out the organization. After his return, sales officials would replace the temporary manager with an administrative assistant, guided largely by the home office, and thereafter could only hope that the two would work together in the future.

A second problem with which Mr. Hayes was concerned at the same time involved another star salesman who had been promoted to a district manager's job. Robert Fisher, also responsible for a substantial portion of the company's sales, had a consistent record of spoiling potentially good salesmen. He upset the men's morale with the result that one had a nervous breakdown, another became a drunkard, and several good salesmen left the company. Nevertheless, as a supervisor he gave every indication of possessing the desirable traits of a good manager.

In describing some of the factors which possibly had contributed to the unsatisfactory situation with respect to managerial talent in the field, Mr. Hayes explained that the company's supervisors were aggressive and competent but had insufficient training and experience in the direction of salesmen and had had no opportunity to obtain experience in handling personnel, office work, or the routine connected with the sales and service of a branch office. He questioned whether, if Ludwig selected good salesmen who appeared to have the traits of supervisors, they would maintain their capacities as outstanding salesmen. Furthermore, he believed that a good manager was one who could sit down with his subordinates and help them work out their problems, but the characteristics of a salesman were the antithesis of this. A supervisor also had to let the subordinate take the limelight, but a salesman who did this would be making a mistake. All in all, he had many doubts about the selection of salesmen with operating experience for positions of line authority.

The initial attempt at a solution of this particular problem was made in December, 1946, when Mr. Hayes placed in this branch office to work under Mr. Fisher an assistant whom he described as a man with both a salesman's and an administrator's personality. After a short time, however, it was evident that the two persons clashed, and Fisher was moved to another district. Mr. Hayes realized that this move was only a temporary expedient and that some step of a permanent nature would have to be taken in the near future.

Early in 1947, a third case came to Mr. Hayes' attention involving a salesman by the name of Quentin Ruggles who had been with Ludwig for 10 years. Ruggles was known to have a well-established home, a wife and three children, and to be free of any financial difficulties. However, he was somewhat irresponsible. He lied to customers about delivery dates and promises that he had made and often misrepresented the applications of machines. He frequently left on a drinking spell which lasted for several days, and he also liked to gamble heavily. Although the general sales manager and others regarded him as an excellent salesman, the many occasions on which he had been deceptive raised the question whether or not he should be discharged.

An investigation of customers' attitudes, which was made both through

outside contacts and by the company itself, showed that the largest majority would swear by the man. On the other hand, a few definitely disliked him and would not let him into their plants. Because his technical knowledge of machines and their uses was considered superior, it was difficult to understand his dishonest practices which included padding expense accounts even to the extent that he entertained guests for other than business purposes and claimed trips when he did not take them. He had been warned from time to time but nevertheless seemed to persist in his habits.

Mr. Hayes explained that part of the man's instability was due to faulty supervision, but he felt that Ruggles would not be completely cured even by correcting this influence. In January, 1947, the various alternative solutions were being studied but, since the question of dismissal had arisen only recently, Mr. Hayes had not had time to formulate definite recommendations.

CASES IN BRIEF

1. The Gardex Manufacturing Company found it difficult to maintain an adequate salesforce and considered discontinuing its sales branches and sales organization and selling through independent agents.

The company produced a device, protected by patents, for writing checks so that the amount of the check could not be altered. Although the prices of Gardex machines varied with the different models, the most common prices were from $60 to $87.50. The Gardex Manufacturing Company had been among the first to produce a check writer, but there were two competitors who sold similar devices. The Gardex check writer was superior to similar devices and had a well-established reputation. For several years, the company had been manufacturing lithographed checks which would show erasures and alterations; sales of checks to banks and important industrial companies constituted about 40% of the total sales volume.

There were 75 sales branches, located in the principal distributing centers throughout the United States, and about 350 salesmen. Complete stocks were carried at the branches, and each branch was under the supervision of a manager who had charge of the salesmen in that district. Credits and collections were controlled in the home office, and sales were supervised by a sales manager and sales organization maintained at the home office.

The salesmen were paid a commission of 33⅓% on the sale of machines; the company did not pay their travel expenses. The company found it difficult to retain its salesmen, because other manufacturers of office appliances and equipment paid higher commissions than those allowed by the Gardex Manufacturing Company. Frequently, the company's best salesmen left because they were offered positions with manufacturers who allowed commissions of from 40% to 60% of sales. These manufacturers produced office appliances which were not so well known as Gardex check writers and which required greater selling effort. The morale of the salesforce was injured when the superior salesmen accepted selling positions with other manufacturers. It often happened that newly employed salesmen who had been trained at the company's expense and to whom advances had been made left the company for positions with other manufacturers.

It was recommended that the company discontinue its sales branches and its sales organization, and appoint independent agents in the various localities where branches existed. It was expected that in most instances the branch managers

would be appointed as agents and that they would retain the existing salesmen. Stocks were to be purchased from the company by the agents, who would be paid a commission on machines of 50% from which they were to pay all expenses. It was expected that they would pay the salesmen a commission of 40%. The commissions for the sale of checks were to be 20% for the agent and 15% for the salesman; these commissions represented only a slight advance over the existing rate of commission for the salesmen. Control over the service rendered to customers was to be retained by the company. The service men employed by agents were to be trained by the company, and the company would require from the agents copies of all invoices for repair work.

It was expected that the office and administration expense incurred by the company could be reduced by about 50%. The company could dispense with the services of all junior executives in the sales organization and of 75% of the clerks necessary for billing and accounting. No expenses for collections and no losses from bad debts would be incurred, and a saving of investment in inventories at branches and in accounts receivable would be realized. It had been necessary, furthermore, to pay state income taxes in many of the states in which branches were located; these taxes would be avoided if independent agents were appointed. A large proportion of the reduction in expense would be counterbalanced by the increased commissions paid. It was estimated, however, that approximately one-third of the savings could be used to reduce prices and to increase profits for the company. One of the chief advantages of this change was the increased incentive to salesmen, provided by the higher rate of commission, to secure a larger volume of sales.

If the branches were discontinued, the company would lose control over the sale of its products. Since the agents were to act independently, the selling methods employed and the prices quoted could not be dictated by the company. Some of the officers doubted whether the salesmen would increase their selling efforts and pointed out that many of them might be less active because, with the increased commissions, they could earn the same salaries as formerly by selling a reduced number of machines. The company was anxious to increase the sale of checks; a high degree of sales resistance had to be overcome by salesmen before they could induce buyers to change from their existing sources of supply. The time spent in securing orders for checks was compensated for by the commission on repeat orders which could be obtained without additional sales effort, but many of the salesmen, if uncontrolled by the company, might not develop these customers.

Should branches be discontinued?

2. The Dundee Manufacturing Company was engaged in the production and installation of automatic sprinkler systems. At the date of its incorporation, its paid-up capital had been small. Sales were restricted to New England and were made from the home office. After several years, the company was in a position to attempt national distribution; four district sales managers were to be appointed to transact sales within defined territorial limits.

The president of the Dundee Manufacturing Company was in favor of giving each sales manager absolute authority within his district. The four men under consideration had been with the company since its incorporation and were qualified by technical education to represent the company. They were to be paid both salary and commission. The president believed that a sales manager's interest in his company was greater if he was placed entirely on his own responsibility. He proposed, therefore, that these managers have authority to select their own local methods of distribution, to choose their own salesmen, and to locate whatever branch offices they desired. They were to have staffs of engineers and draftsmen; they could select and pay for advertising and conduct whatever sales research they deemed advisable. The product, which

was built entirely to order, was to be sold to the district sales managers at cost plus manufacturing profit. They were to fix the price at which the equipment was to be resold within their territories. From the resulting gross profit, the expenses incurred by them within their districts, exclusive of their own salaries, were to be paid. The only check upon them was to be in the ratio of expense to net sales and in the net profit which they reported at the end of the year.

Other officials of the company pointed out that, if the proposed system were installed, the district sales managers could not benefit from the knowledge and experience of the president of the company. They maintained that the policy of allowing the district managers to fix the selling price was dangerous. It was possible that products might be sold at less than cost. The district managers, however, were to be informed concerning the fluctuations in manufacturing cost and, with their own corps of engineers, were qualified to make profitable contracts.

Another objection was that it was possible for the district sales managers to defraud the company. The president replied that each manager's books were to be checked by certified public accountants, but that, if a man was dishonest, he could cheat under any system which might be installed. A general conference of the district sales managers was to be held at least once a year for the interchange of experiences and discussions of general policies. It was suggested that, if the sales managers were competing with each other to become executives of the company, there was a possibility that, instead of interchange of information, each man might guard his valuable knowledge jealously. The president, however, believed that the men under consideration were sufficiently broad-minded to appreciate the value of interchange of ideas.

An alternative plan was to have one general sales manager located at the home office who had charge of the four district sales managers. The president contended that centralized control had its advantages but that he wished to avoid the possibility of a one-man organization. Although each of the four managers was to be paid more highly than ordinary branch managers, the difference totaled was no greater than the salary of a general sales manager.

A further suggestion was that if the district managers were allowed to act independently, credits should be controlled by the home office. Notwithstanding the fact that the district managers were in closer touch with customers, centralized credit control was more impartial and was less expensive.

The management of the Dundee Manufacturing Company decided, therefore, to allow each district sales manager to control all operations within his territory with the exception of credit. Each district manager would canvass his territory through the agency of branch offices, which he established as their location seemed justified.

Was the decision sound?

3. A large specialty food company with an extensive regional organization had developed a technique for selection from its salesforce for sales executive positions. Once a year the list of candidates for promotion was checked. At that checking, candidates who had shown special promise were marked for accelerated promotion while occasionally some candidates were concluded to be not promotable.

In addition to the rating of candidates annually, the company had endeavored to prepare job descriptions and complete specifications of the qualifications to fill a given position. Effort was made then to list every one in the organization who might possibly possess those needed specifications and to check their qualifications against the specifications.

Was this procedure likely to be an effective one?

What were its limitations?

4. The Darrell Company manufactured metal for cutting tools and also sold cutting tools manufactured by others. There were nine district managers and about 70 salesmen. With the increase in business,

some of the salesmen had been receiving incomes which were based on a smaller salary plus commission above quotas in excess of the income of district managers. District managers were getting from $7,200 to $16,000 per year, averaging around $11,000.

The quota was apparently fixed on what the executives thought was a fair cost of sales in the area: 18% for salary, commissions, and expenses was a common figure. The company would like to get some incentive method for paying district managers which would give them an incentive to do their best jobs just as salesmen got an incentive through the commission they received.

On the other hand the company believed it was paying in total as generously as any other company for the services which district managers performed. Among the suggestions several things might be considered. The one which received the most support was a bonus to be based on an appraisal of each district manager according to cooperativeness and series of other criteria. It was stated that the home office executives agreed pretty well on the rating of the various men.

5. The Builders Iron Company sold various types of iron and steel products through territorial offices and warehouses in the United States, each of which was in charge of a district sales manager, who supervised from 4 to 10 salesmen and a warehouse operation. Each warehouse sold about $1,000,000 of iron per year while the sales organization not only sold the product out of the warehouse but solicited orders for the mill. Each territory may do a total business of from $2 to $10 million. At the warehouse there might be an office force of 8 to 10 people and in the warehouse 3 to 5 warehousemen. The company had recently put into each warehouse a "warehouse manager," really an office manager, who was expected to develop into a combination manager of warehouse, operation, and inventory control, under the direction of the territorial district sales manager.

The district managers were chosen from among the salesmen. As one executive put it, the first management responsibility that these men have had came with their appointment as district sales manager. The problem which the company faced was that of determining some simple means of introducing these men to management responsibilities. The experience of the company in allowing men to feel their own way had proved expensive and executives felt there must be a better way.

6. The Rogers Company of Chicago was one of the large manufacturers and distributors of heat and radiation systems. Because of its adoption of progressive sales methods and its extensive advertising over a period of 25 years, the company experienced rapid growth until there were over 40 branch offices and suboffices in the organization. At that time, the branch managers were subordinate to territorial sales managers located in the central office. The country was divided into three divisions, with a territorial manager over each. These territorial managers had control and direction in their respective districts of branch managers, who made periodic reports to them. The territorial sales manager reported to the general sales manager of the company. At the time, all accounting, billing, credit, and collection work was centralized in the Chicago office; the branches were simply selling and warehousing offices. The branch manager had the power of hiring and firing salesmen and exercised control over them but had to make detailed and elaborate reports on their work to the territorial sales manager who was over him.

The district sales managers and branch managers of this company were in almost all cases superior salesmen who had been promoted to these positions. The general sales manager after much thought had convinced himself that his branch managers and territorial managers had become desk men to too large a degree; their sales ability was not being utilized through personal contact with their selling forces. Practically their whole time

was taken up in handling the many order forms and report sheets required in the centralized control.

The question of organization was brought up at a meeting of the board of directors. It was suggested that the offices of the three territorial sales managers be discontinued, that the accounting, billing, credit, and collection work be transferred to the branch offices, and that the branch managers be given a freer rein in their territories. The general sales manager was requested to draw up a statement to be included in the organization manual of the company, setting forth the functions and duties of the branch managers under the new arrangement. Further, it was requested that he state the relationship of the branch manager to the various functional officials in the central organization, such as the new product manager, the merchandise manager, the credit manager, and the statistician.

Should the proposal for reorganization have been adopted? What would have been the relation of the branch managers to the functional managers in the headquarters office?

7. The Jackson Wholesale Company, located in Chicago and St. Louis for 50 years, gradually expanded its operations until its sales approximated $20,000,000 annually. It had started out as a general dry goods wholesale house but had developed a specialty business in hosiery and underwear. It controlled two nationally advertised, trade-marked lines, "Longlife" hosiery and "Packard" underwear, which were widely distributed throughout the United States. Most of its general trade came from territory contiguous to Chicago and St. Louis.

The company employed 167 salesmen, all of whom reported directly to the general sales manager or to one of his two assistants. The assistants spent all their time at the Chicago office, but the general sales manager divided his time between the two offices. The general line was sold to retailers of all types and sizes by general salesmen who were prepared to sell any article carried by the house. In addition to these, there were specialty salesmen, for both hosiery and underwear, who covered not only the Chicago and St. Louis trading areas but the remainder of the United States.

It was proposed to the general sales manager that the company hire 10 sales supervisors, to be given the task of supervising both the general and specialty salesmen. It was pointed out, however, that such a move would entail an annual addition to the overhead of approximately $50,000.

What recommendations should the general sales manager have made to the president? Give the reasons.

8. The Bond Billing Machine Company produced an office appliance ranging in price from $50 to $300 for the various models. The main office was in New Haven, Connecticut, with sales agencies located in 96 cities throughout the United States. Domestic sales were in the charge of the general sales manager and his assistant. There were 19 sales districts in the United States, each supervised by a district manager whose entire compensation was derived from a commission on sales in his district. Under each district manager were local managers who had charge of sales and service stations in the larger cities of the district. The district manager was responsible for employment and control of the salesforce and for the supervision of local branches in his territory. It was proposed that the United States be redivided into six districts, each of which was to be in the charge of a district manager. The managers of the new districts were to be selected from the 19 existing district managers, and those remaining were to be established as sales managers under the jurisdiction of the newly established district managers and were to be paid on a commission basis. The six district managers were to receive a straight salary instead of a commission as formerly, and they were not to do any actual selling.

Should such a plan have been adopted? What were its advantages and disadvan-

tages? What factors determine the number of supervisory levels and the amount of supervision required in a sales organization?

9. What are the requirements for the adoption of a decentralized branch organization?

10. How is the chief sales executive to determine the amount and type of supervision for salesmen in the field? Is it possible to detect the point at which diminishing returns from additional supervision begin?

11. What is the relationship between the setup of a field sales organization and the morale of the entire sales department?

12. What is the relationship between the policy of a company regarding the establishment of sales branches and its policy relative to (1) distribution channels, (2) financial resources, (3) type of product?

13. Should sales supervisors, branch managers, and other field executives be selected upon the basis of sales records?

14. How many salesmen can one superior supervise? How many branches and branch managers can one executive direct? What factors determine the number in each case?

15. How does competition rather than the need of buyers for spot stocks often cause the establishment of sales and stock branches?

C. RELATION OF THE SALES DEPARTMENT TO OTHER SELLING AND NONSELLING DEPARTMENTS

The crucially important position of the sales department in a business enterprise is not so fully appreciated at times when sellers' markets are in the ascendant as when buyers' markets prevail. Nevertheless, in both, the results of sales operations depend upon a smoothly working coordination of sales effort with the work of advertising, research, and credit departments as well as with production and traffic and financial departments. While executives differ widely in their opinions as to the organizational relationships of these departments, there is no difference of opinion as to the desirability of close cooperation in the attaining of the common objective of sales volume and profits. A brief discussion of the principal departments whose activities relate to or affect the sales department follows. In practice, there is a great diversity among business concerns with respect to the provision for coordination and cooperation.

Advertising. The early development of an intensive study of advertising methods led frequently to the establishment of advertising departments coordinate with the selling departments devoted to other types of sales activity. One of three locations for the advertising department is usually chosen, namely, (1) a position coordinate with the sales department, (2) as part of a separate, more inclusive, department, (3) as a section of the sales department. There is no valid reason, except that of personality, why advertising should not be considered as part of the general marketing organization. The sales or marketing manager should not devote his time exclusively to the use of any particular sales method; he should correlate advertising, personal salesmanship, correspondence, and other methods. If the chief sales executive

is capable, it would seem that there would be a distinct advantage in having advertising carried on as a subdivision of the general sales department.

Export. The export department is logically a selling department. The means that it adopts to attain sales are, in general, of the same types as those used in the domestic market. However, it is evident that much of the information with which the domestic sales manager is equipped to deal with domestic problems does not come as a matter of everyday experience to the export sales manager. The difference in details in domestic and foreign business practice has led many concerns to segregate the export department. If the export department is to be a part of the general sales department, the chief sales executive must be a man of broad mind and large capacity.

The concern which is entering a foreign field and finds it necessary to engage in functional specializations is usually compelled to adopt more or less definitely one of two general plans of organization: (1) that termed a "built-in" export department, where there is clearly the assumption that greater homogeneity is obtained by specialization according to functions than by specialization according to the area in which functions are to be performed. In such an organization the export operations are regarded as essentially sales operations of a nature similar to other domestic operations, and the functional executives, such as advertising manager, credit manager, shipping clerk, should be responsible to the limits of their capacity for both export and domestic sales operations. (2) The separate export department, which may be located in the business concern as a section of the general sales department but which frequently is independent and coordinate in authority with the general sales department. It is obvious that such a department provides the means for greater specialization, which may or may not be an advantage.

One question which continually faces the house in establishing a separate export department is the relation of the export department to the domestic sales department. With a sufficiently broad-minded general sales executive, combined export and domestic sales departments should be so managed as to bring about better results as a whole than is the case where the two departments are separate. Wherever there is segregation, there is the necessity for careful coordination of activity. The fact that foreign trade may be looked upon as a stabilizing factor, as a compensation in dull domestic times for decrease in domestic business, brings with it also the danger that in a boom market in the domestic field the export trade will be deprived of proper supplies by action of the domestic sales department. Long-run policy necessitates consideration of customers' good will in the foreign field, as in the domestic field. The related problems of the export and production departments are always important because of the necessity for securing prompt delivery. While the export department often feels that it should be able to

control the type of product manufactured for export, there is clearly the necessity for compromising between the sales attitude and the manufacturing point of view.

Sales Research. In the development of the functional specialization in the sales department, the separation of planning and performance has led occasionally to the segregation of research activities. The task of planning routine types of work is often placed in a subdepartment of the sales department, which is given the title of sales research or sales statistics department. In its broadest aspect, the sales research department includes all research and planning activities which deal with marketing; in its narrowest sense, it includes merely the section of the sales department which is devoted to the handling of inquiries, follow-ups, etc.

Credit. The relative importance of the credit and sales departments is a subject of controversy. One of two organization policies characterizes most firms: (1) The credit department may be placed entirely outside the control of the sales department. Such action is justified on the ground that, in those matters affecting the finances of the concern, the credit department should be operated by officials who will not be biased by any effort to expand the volume of sales. (2) The credit department is placed within the sales department, so that the credit and selling sections coordinate activities through the superior sales official. This disposition of credit control is based upon the assumption that the functions of the sales department include not only the taking of orders but also the delivery of goods and the securing of payments for shipment.

Public Relations. The work of the sales department involves direct relations with a smaller or larger segment of the public. The products sold, the prices at which they are sold, advertising of products, and vendor, all represent contacts with the public, sometimes with many beyond the buying public. If public reaction is generally favorable, sales and programs are likely to reflect it. Likewise, if public reaction is unfavorable to products, policies, vendors, or methods, whether in selling or in other contacts with the public of the company, the sales department's task is made more difficult if not impossible. Sound public relations, therefore, are important to the sales department just as sales department behavior and public understanding of its work are important for sound public relations. Good public relations rest upon sound policies and socially defensible business behavior. It follows, therefore, that public relations effort to bring the public a clear picture of the company's efforts to discharge its obligations of good citizenship should redound in part to the benefit of the sales department in its effort to sell goods and services.

Public relations work has sometimes been placed under the control of a sales executive, sometimes combined with advertising. However, there is a growing conviction that so many aspects of business enterprise are involved

that a public relations department should report to a high general executive, the president, executive vice president, or general manager. There is much difference of opinion as yet as to the responsibilities and methods of public relations work being carried on by a company, and frequently such work is being shifted to one or another of the numerous public relations consultants who have developed as businessmen have felt more and more keenly the need for improvement in their relations to various publics with which they are concerned.

Production. The sales department of which the salesman is a member has the responsibility for effecting distribution of the goods purchased and manufactured in such a way as to bring net profit to the business; but the sales department is not the only one upon which the making of profit depends. It is true that, unless goods are sold, no profit can be realized, but it is just as true that, unless goods are bought or manufactured, they cannot be sold.

Friction often arises between the sales and production departments. In many organizations, the production department does not understand the needs and problems of the sales department, nor does the sales department understand the fundamentals of good production management. It is the function of the production department to produce the goods which the public needs and wants and which can be profitably sold by the sales department, but the task of determining what the public needs and wants is sometimes a very difficult one. It is often necessary for the sales department to go to much study and expense to determine whether a proposed product is in sufficient demand to warrant its production. The sales department must not forget that production efficiency and low production costs are frequently much more important than slightly decreasing sales resistance by catering to purchasers' whims in the matter of special orders.

To some extent, the necessities for coordination of sales and production may affect sales organization. The organization measures which have been adopted by particular concerns vary. In large organizations, special officials with various titles may be appointed whose duty is primarily that of contact with various departments and coordination of efforts. They are frequently staff officials. Another method of attaining such coordination is a committee arrangement, whereby, through conferences and meetings, members of the production, sales, and financial departments of a business meet to discuss problems which affect two or more phases of activity.

Traffic and Shipping. Traffic and shipping departments have not been assigned by common practice a definite position within the modern business organization. Most concerns have adopted one of three general plans: (1) The traffic and shipping departments are sometimes placed under the control of the production department, because it is said that physical operation of shipping is more analogous to manufacturing operations than to other phases of the business, and the shipping and traffic departments must act not

only in connection with outward shipments but also in connection with inward shipments. (2) The traffic and shipping departments may be placed within the sales department, a position which is defended on the ground that selling operations include not only actual order-taking but also the delivery of finished goods. (3) These departments may be segregated in a distinct department, coordinate with sales and production.

Purchasing. Within a manufacturing organization the purchasing department is ordinarily independent of or connected with the production department, because the bulk of purchases and most purchasing activities are concerned with material, supplies, and equipment for manufacture, rather than for selling. In wholesale merchandising, however, the purchasing department occupies a position similar to that of the production department in a manufacturing enterprise. The purchasing officials in wholesale concerns have been ordinarily the selling as well as the buying heads of their respective departments; consequently, the management of sales by buyers has become the accepted practice, although there is evidence that departure from accepted practice is growing more common.

Financial. Since both manufacturing and sales require capital, particularly working capital for payroll, the question of the relationship between financial and sales departments becomes important. The financial functions of a business enterprise are usually controlled by an officer who is a member of the corporation or an appointee of the board of directors, who, as an expert, assists in, and acts as a check upon, operations of both production and sales departments. It is evident that the policies and methods of the sales department with respect to credits and price will be circumscribed by the financial conditions of the enterprise and the officials in charge of finances. The coordination of financial and sales departments may be effected through the personal relationship of officials. Many concerns find it advisable to effect coordination of financial and sales departments by committee organization; staff officers are sometimes assigned duties of coordination; under a budget system, the financial coordination of efforts rests with the budget-approved official or committee.

73. LINDSTROM FLOUR MILLING COMPANY (A). Establishment of a Sales Personnel Department and Merit Rating of Salesmen

The Lindstrom Flour Milling Company with executive and sales offices in New York owned and operated a number of mills and food manufacturing plants in the Middle West. The company processed and sold white, graham, and rye flours to the commercial bakeries and to the grocery trade for resale to consumers. In addition, a number of branded specialty products such as cereals and biscuit, pancake, and cake mixes had been developed and distributed intensively.

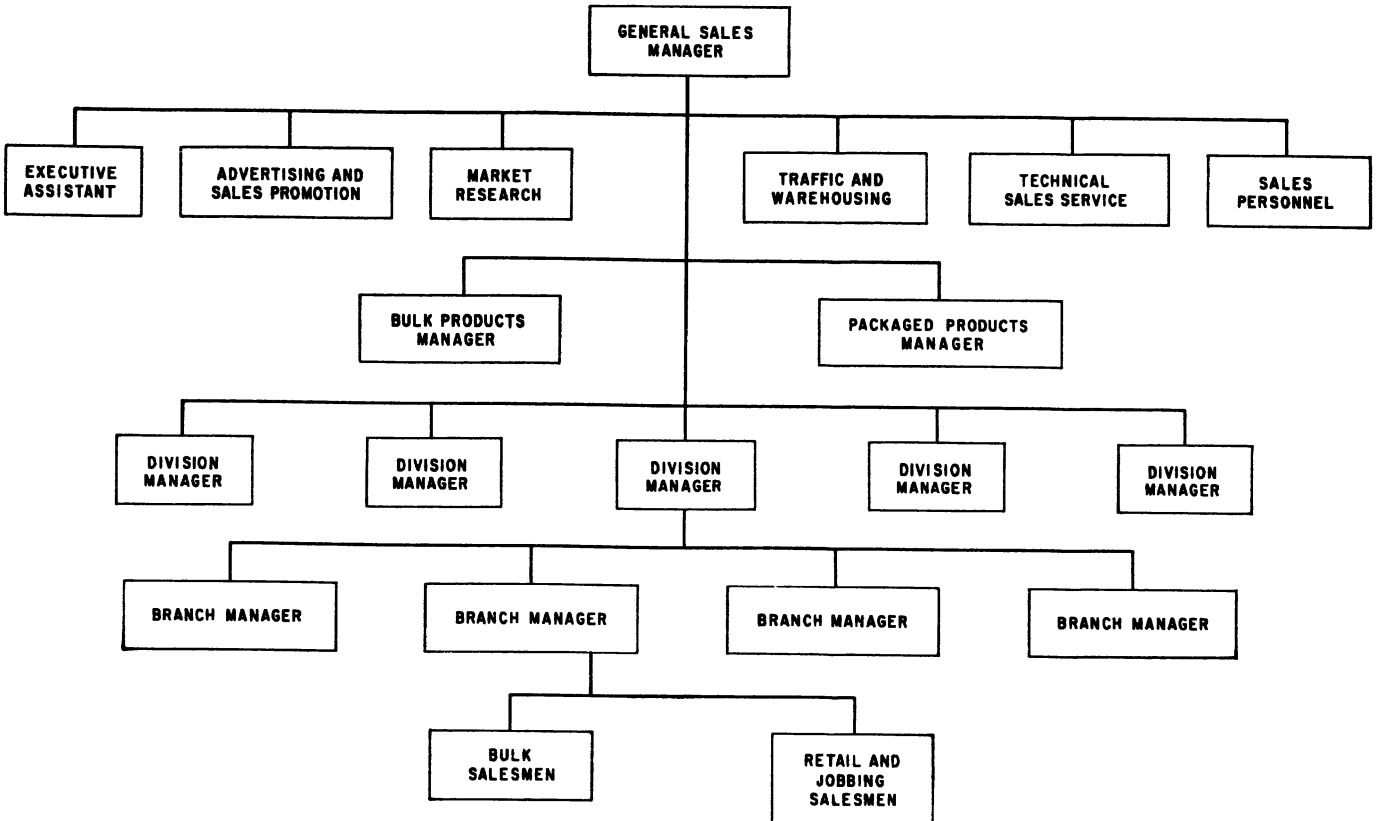
The sales department of the company, headed by the general sales manager, included five division managers who were in charge of the field salesforce. Each division manager supervised a number of branch managers who, in turn, were in charge of offices in major cities throughout the country. The field salesforce was divided into package sales and commercial or industrial sales; 200 wholesale and retail salesmen handled package sales under functional supervision of the packaged products manager. The wholesale salesmen maintained contact with the major grocery wholesalers, chains, and the institutional trade while the retail salesmen called on retail grocery stores making introductory sales, attempting to obtain advantageous display space, and securing the cooperation of the retail grocers in special promotions. One hundred bulk salesmen, under the functional supervision of the bulk products manager, handled all industrial or commercial sales in bulk form. The bulk products salesforce included 20 technical sales representatives, who were at the disposal of the branch and division managers in special situations requiring analysis of a consumer's products and processes by a Lindstrom company representative with technical proficiency. At the company headquarters the general sales manager was assisted by the bulk products sales manager and the packaged products sales manager as well as staff groups such as market research and advertising (see Exhibit 1).

In 1949 the general sales manager appointed a sales personnel manager. The man selected had been affiliated with the company's sales division for many years and was considered well qualified for the position.

The executives of the company had reached the conclusion that decentralizing the personnel function would be beneficial, especially in the sales department where it seemed wise to have a sales personnel department responsible to the general sales manager and under the functional direction of the director of industrial relations, rather than to have the sales department depend on the facilities of a central personnel office within the company as in the past. It was felt that the needs of the sales department differed from those of other departments. Since it had been accepted that such functions as selection and training of the salesmen should be in the hands of the sales department, it seemed wise to have other personnel functions in the hands of a man who understood well the jobs of the various selling positions and was responsible to the general sales manager.

Among the first tasks undertaken by the sales personnel manager was a new evaluation of the requirements of the various sales positions. After preparing detailed descriptions of the four sales positions, retail salesman, jobbing salesman, bulk salesman, and technical sales representative, he recognized that responsibilities and requirements within the classifications were very broad. Therefore, these classifications were analyzed into a larger number of positions, for which job descriptions were prepared. The sales

Exhibit 1. LINDSTROM FLOUR MILLING COMPANY. Organization of the Sales Department



personnel manager then served as a member of the evaluation committee which, in 1949, recommended the position grade classification and appropriate salary range for each position, coordinating the administration of sales department salaries with the company-wide system of position grades and salary ranges. After approval of the recommendations by the general sales manager, the sales personnel manager took responsibility for coordinating and assisting in the installation of the new system in all sales divisions and branches.

The sales personnel manager found there was need in the sales department for a systematic and continuing appraisal of the performance and development of the salesmen and for staff assistance available to the division and branch managers to help them in judging their salesmen. Because of the large size of the salesforce working out of branch offices spread all over the country, it was very difficult to obtain uniform methods and standards for appraising the performance of salesmen and evaluating them for salary increases and possible promotion. As a first step in the direction of providing staff assistance to the managers responsible for the supervision of the salesmen, the sales personnel manager instituted the use of the form "Personnel Appraisal for Salesmen." This blank provided for the rating of salesmen by a superior on four bases: (1) effectiveness of effort, (2) consistent application of effort, (3) adaptability, and (4) dependability. Each of these four factors was divided into five ratings ranging from unsatisfactory to excellent. Each rating included a brief sentence describing the level of performance or the characteristics suitable for that particular rating. Spaces were provided for the supervisor to indicate by a check mark his opinion of the salesman's performance on each factor.

The rating blanks prepared by the managers for all salesmen were sent to the sales personnel manager. Each blank was scored under his supervision and recorded as part of the individual salesman's record in the home office. For the purpose of scoring the sales personnel manager assigned a value of 5 points to each unsatisfactory rating and 25 to each excellent rating with a proportional number of points in between. On this basis the minimum possible rating for the 4 factors was 20 while the maximum was 100.

In December, 1950, the sales personnel manager believed that some progress was being made in making this a useful management tool within the company. However, he was aware that there was a lack of objectivity in the ratings by some of the managers as shown by a concentration of relatively high ratings under some managers and relatively low under others. He did not feel, however, that merit rating was entirely unsuccessful as used in the sales department to date. He considered this work to be of an evolutionary nature and pointed out that complete and consistent results could not be expected in a short time. Since it had always been customary to delegate to division and branch managers great authority, the sales personnel manager

could only strive for better utilization of the personnel appraisal through a long-range educational process.

The reverse side of the personnel appraisal form contained a series of questions about the salesman's habits, characteristics and work on which his supervisor rated "superior," "average," "unsatisfactory," or "don't know." These questions were not scored by the sales personnel manager but were intended to be of use to the supervisor in direct contact with the salesman.

He believed that the use of this method of merit rating would benefit the company in the long run. At the present time the company carried on its payroll a number of salesmen who were considered below average, but who had been with the company for so many years that it was not reasonable to fire them. He believed that the company would have to live with these "problem salesmen" until they reached retirement age. However, he hoped that these problems could be avoided in the future by means of the merit rating system. The records of past ratings would be produced whenever the man was up for review for salary or promotion. If, by means of merit rating, men whose performance was poor could be fired in the first year or two, then continuing problems with such men could be avoided.

74. GULFTON OFFICE EQUIPMENT COMPANY. Discontinuance of Sales Research Department

The Gulfton Office Equipment Company of Chicago, Illinois, manufactured duplicating, printing, folding, and addressing machines ranging in unit value from $200 to $2,500, and also record maintenance equipment. Annual sales of the company averaged about $4,000,000. Distribution was effected through sales agencies which were assigned specific territories, usually one larger city and the surrounding territory, and were allowed commissions on sales ranging from 25% to 30%. The sales agent recruited and controlled the local salesforce, usually paying salesmen a commission of around 20%. In spite of the commission method of compensation, the relations of the agents to the company were very close.

Over a period of years the Gulfton company had built up a rather elaborate sales research department including a manager, two assistants, and seven clerks. This department, which usually received an annual appropriation of about $35,000, was directly responsible to the president of the company. The department analyzed and classified past sales to various industries with the intention of directing sales effort into the channels which had proved most fruitful. Over 900 separate vocational uses for the company's products were enumerated; this number was later reduced to 400, and finally reclassified into 20 major classes with subdivisions.

Analysis had revealed that over 60% of the Gulfton company's sales was made to firms already using some of the company's products. The department

watched carefully the conditions of business in the various industries and prepared monthly reports recommending one or two industries in which conditions were best for solicitation. Sometimes the reports were over 10 pages in length, and discussed in detail conditions in the industry and the application of the company's products to the specific industry. To each sales agency was sent a list of all users of the company's products in the recommended industries in that territory, as well as all nonusers rated at $100,000 or over. The reports were sent through the sales department to the agents, but the sales executives had practically no supervisory power over the contents of the reports.

During the thirties, the company suffered a drastic decline in sales volume, the severity of which was attributed by some of the executives to the faulty policy of the research department. Through supplying leads to the salesmen the department directed the sales effort increasingly toward the larger companies and especially toward those already using some of the company's products. One particular salesman spent his full time soliciting only 11 large accounts. Many larger corporations issued orders that all purchases of office equipment were to be approved by high executives; this policy, together with the rigid economy programs instituted, practically stopped the sale of equipment to this class of accounts which had previously absorbed the bulk of the company's sales. The sales executives of the Gulfton company immediately realized the necessity for soliciting business from smaller companies, especially those which were not using any of the company's products.

The sales executives further criticized the activities of the research department in furnishing elaborate reports which shifted the efforts of salesmen from industry to industry monthly. Under the circumstances, the salesmen did not develop the initiative to study their own local territories and to seek sales from nonusers. Some branches turned in report after report showing no sales at all to nonusers.

Consequently the research department of the Gulfton company was discontinued because the executives believed the cost was unwarranted in view of business conditions and the necessary changes in the policies of the company. Salesmen were directed to solicit business from smaller companies, especially nonusers. Each salesman was to prepare and maintain a list of leads in his territory to which the company would send direct mail pieces regularly. The salesmen were expected to maintain their contacts with the larger companies, but not to spend a disproportionate amount of time with them. Only one phase of the work of the former research department was retained. One man, under the supervision of the advertising manager, was to spend part of his time studying business conditions in the various industries and to recommend from time to time those industries in which sales possibilities were best.

75. HAMMOND GLASS CORPORATION.[1] An Analysis of the Market Research Function

The Hammond Glass Corporation, a subsidiary company and large manufacturer of glass containers, conducted consumer market research on a moderate scale under the supervision of its sales promotion manager. This work was further supplemented by the packaging research and general research departments of the parent organization under the vice president and director of sales. Other departments in both the parent and the subsidiary organization were assigned the responsibility for various phases of market, product, sales, and general research. In view of the fact that such functions were widely dispersed, the feeling existed among top executives that the market research job as then performed was not developed and coordinated to the proper degree. The suggestion had also been made by the vice president and director of packaging research that greater emphasis might properly be placed on analyzing the company's immediate customer market as opposed to the importance currently attached to consumer research. In the spring of 1947, the assistant to the general sales manager requested that the manager of the sales control division, Mr. Warren Bishop, undertake a preliminary study aimed at appraising the company's current market research activities and recommending further courses of action to take advantage of the potentialities of such research. The study, which required only one week to complete, was a brief examination of research practices and pointed out those decisions which management should make concerning the direction and nature of future research and the organization of the group performing it. At the same time, it attempted to indicate the scope of research as carried on by various company groups although conclusions were based on a general rather than a specific or detailed knowledge of department functions. The report covering the results of the study is reproduced below.

I. Foreword

OBJECTIVES

The objectives of this study are threefold:

1. *To establish a general background* as a guide to further analysis and discussion concerning the development of a market research program for Hammond.
2. *To analyze the present status* of market research within Hammond.
3. *To outline courses of action* and issues involved in the further development of market research to fulfill adequately the needs of the present and future.

[1] The home office of the company was located in Chicago, and its products included all types of glass containers for food, drug, and beverage items. Each company plant had a maximum of 1,500 gross and a minimum of 500 gross stock point for each size and type of container. Total sales for 1946 for all branches amounted to $151,024,865.

LIMITATION OF SCOPE

Since this study was initiated and completed within the Hammond Glass Corporation, its scope will be limited to that part of our business. This does not intend to imply that the ultimate development of a market research program must necessarily be confined to the Hammond Glass Corporation. About half of the firms operating market research programs have established departments to function over the entire range of company products and services.

II. Introduction

HAMMOND PROGRAM

While there is indication as to the need for further development of market research for Hammond, the pattern and extent of such development is dependent upon management decisions:

1. To augment the program to include a more intensive and continuing research relating to markets; and
2. To establish a centralized department or continue the current decentralized discharge of functions by a number of departments.

NEED

Evidence of need for at least consideration of formalizing some market research functions results from the long-range trends of

1. *External factors* of an expanding and dynamic economy, the increasing severity of cyclical fluctuations, the increasing complexity of conducting business, and
2. *Internal factors,* most of which relate to tremendous growth, attendant complexity and the relative seriousness of individual judgments and policies.

The impact of these forces on our business are amply evidenced by the very nature of current problems, questions, and projects.

III. Market Research

DEFINITION AND SCOPE

The title "Market Research" is somewhat misleading in the implication of activities confined solely to studies of markets. In its general interpretation, however, the term is used to describe functions approximating "business" or "commercial" research in four main fields:

1. Research relating to *markets* (e.g., potentials, territories, forecasting).
2. Research relating to *products* (e.g., new product development, consumer preferences, pretesting new products).
3. Research relating to *sales methods* (e.g., distribution channels, choice of advertising media, sales operations).
4. Research relating to *general policy* (e.g., price structure, sales compensation, corporate finance).

In the discharge of these functions, it is entirely within the scope of market research to provide objective analyses of problems of the sales, production, comptroller's traffic, and other departments.

The check list shows how the products of an organized program of research can serve as effective management tools not only for the sales department, but for all other major departments as well.

Some companies operate on a narrow definition in confining the function solely to studies of markets and market conditions—problems arising out of the sales department as in item 1 above.

GENERAL PRACTICE

Position of the department is dependent upon a number of interrelated considerations, such as type of products, size and character of market, company's size; management decision, size and scope of operations, nature of department functioning, etc. Approximately 40% of existing market research departments reports either to the president, executive vice president, or general manager of the company; 30% reports to the Sales Executive; and the remaining 30% either reports to various other officers or has a diffused market research function. The criteria for placement of the department or function are that it will be free from influence of those whom its work affects, that it is set so it can operate at maximum efficiency, and that it has the whole-hearted support of the executive to whom it reports.

Internal organization of the department is generally "custom-made," because of the many factors concerning size, function, and personnel which affect its development. Of the companies employing some form of market research function, nearly 50% has a separate centralized department; 25% has functions vested in several executives or departments; 25% has a single executive or research worker. Decentralization can therefore take two forms: either a single department subdivided by product groups, or a diffused functioning of market research within the several operating divisions or subsidiaries of the company.

Distribution of department's time gives clear indication that it is primarily a sales function, 75% of its time being devoted to such analysis. In this connection several additional issues are involved:

1. Whether or not the department will be required to provide an information service or clearinghouse for information for the rest of the company; whether or not it will be required to maintain a library, review marketing material, and render appropriate reports thereon; whether or not it will prepare periodic "market letters" for the benefit of company executives, and

2. Whether or not it will maintain company sales records or confine activities to special analyses based on data supplied to it. It is essential that the department have influence in this regard as it is generally the principal user of this information.

The direction of the department effort should be constructive, and actual experience warns against overload with minor problems or service jobs.

The *budget* generally approximates $\frac{3}{10}$ of 1% of sales for a company manufacturing consumer products and is usually determined by either the sales executive, director of market research or president of the company. The above expenditure is conservative, particularly in view of most companies' plans to expand from war curtailment beyond prewar size and budget. Cost factors are

expected to decline as improved marketing efficiency builds sales volume. Due to difficulty in forecasting specific needs, there is need for a contingency reserve. Although similar to laboratory research in that results are often long-range and not immediately tangible, general practice is to charge costs of operations to other departments on basis of use made of market research department.

The *principal origins of subjects studied* are either the market research department itself or the sales department. The remaining subjects originating in other departments constitute only ⅛ of the department's subjects.

The analysis technique employed in these studies must never lose sight of the main mission of the department: fact finding to guide executive judgment.

Personnel requisites are:

1. Knowledge of market research operation.
2. Knowledge of problems and operations peculiar to the particular company.

CASE STUDIES

In the selection of five case histories from the National Industrial Conference Board study on this subject, firms were selected for comparative purposes of a size both smaller and larger than the Container Division. Only the briefest outline of operations and organization will be given.

Allis Chalmers Manufacturing Company: 1946 sales 290 million dollars. Department started 1941 and is divided into two main groups: market and economic research, internal statistics and office procedure. Retain consulting economist at University of Wisconsin. Analysts specialize by product lines. The department reports to the V.P. in charge of general machinery division. Is made up of fifteen analysts and supervisors and fifteen clerical and stenographic personnel. While no budget figures or percentage is given, estimated costs of this size department would approximate $100,000.

Corning Glass Works: 1946 sales 56 million dollars. Department started 1943, divided into technical and consumer products. Reports to V.P. director of sales. Personnel, eight men and eight clerical and stenographic. Studies problems relating to sales and transfer of goods and services to customer. Function broad and protected from interference of operating divisions. Maintains consumer panel. Does not maintain sales records but works from them. No repetitive or routine functions but anticipate enlargement to pick up continuing routine jobs. Research costs are charged to executive sales expense. Total budget is not mentioned but is estimated to approximate $60,000.

Eastman-Kodak Company: 1946 sales 264 million dollars. Established 1934. Department divided into two groups: research and service. Research group consists of four analysts on product line projects. Service group is hand tabulating any record section, but machine tabulation is done by the Comptroller's Office. The department has wide scope on problems of new market product research, consumer studies, economic analyses on industry and business, product distribution, and measurement of competition. Does no work on sales quotas or measurement of individual salesmen's efficiency. Approximately half its time is devoted to distribution problems, nearly ⅓ is given to product problems, 1/10 is given to advertising department in determining appeals, the remaining

1/10 is spent on studies of direct interest to top management. To eliminate duplication of record keeping, department maintains no routine records but obtains such information from other departments. Studies are accepted at the discretion of the Market Research Director. Costs are accumulated and charged to General Administrative Expense with no charge against individual departments. Budget is composed of three parts: salaries, operating expense, and expected expenditures for studies conducted by outside agencies. Department is made up of seven analysts and supervisors and six clerks and two stenographers plus use of Company stenographic pool. No cost figure available.

Libbey-Owens-Ford: 1946 sales 68 million dollars. Reports to vice president in charge of marketing. Composed of Director, Assistant Director, each with secretaries, two statistical clerks and two stenographers. Major duties and responsibilities have to do with product, prices, market distribution, sales promotion and advertising, sales control and direction, customer relationships. Does not maintain sales records nor handle service jobs. Three-fourths of the department's time is devoted to sales problems. Uses field organizations and outside agencies to supplement its work. Charged to sales overhead. Major extra budgetary projects require executive approval.

Sylvania Electric Products Company: 1946 sales 126 million dollars. Started in 1942. Department consists of a Director of Sales Research, an Economist, a statistician, market research specialists, and four stenographers and clerks, one of which specializes in charting. Operates under broad lists of functions, but responsibility does not extend beyond recommendations for correction or improvement. Follow-through is considered an administrative responsibility. Four-fifths of its time is devoted to sales matters. Conducts studies for subsidiaries and even for company's customers on a cost basis. Does not maintain sales records or handle routine or repetitive jobs. Much data are secured from outside market research consultants. Sales research head is not a technician since his main responsibility is general planning. Costs are charged to sales administrative expense but annual charge back to each division is made at year end on estimated basis.

IV. Current Hammond Market Research Activities

METHOD

This section is an appraisal of Hammond research by comparison with a list of functions which authorities consider as the legitimate concern in this field. In attempting to correlate current market research activities, consideration must be given and allowance made for the fact that the analysis which follows is based on a general knowledge of departmental operations.

APPRAISAL

The following list was a part of the NICB Survey of 154 companies on market research and is a detailed breakdown of the general listing of this study. Opposite the listing of the functions we have shown the responsibility orbit of individuals or departments in Hammond Glass:

A. *Research Relating to Markets*

Market Research Functions	*Responsibility Orbit*
1. Analysis of Consumer Market	Sales Control
2. Relative Profitableness of Markets	Asst. Sales Mgr.
3. Analysis and Interpretation of General Market Data	Ind. Sales Mgrs. and Sales Control
4. Estimating Potential Sales	Sales Control
5. Estimating Demand for New Products	Ind. Sales Mgrs., Sales Promotion and Sales Control
6. Market Analysis by Customer	Sales Control
7. Market Analysis by Area	Sales Control
8. Establishment of Sales Territories	Asst. Sales Mgr. and Sales Control
9. Establishment of Sales Quotas	Sales Control
10. Competitive Conditions in Markets	Ind. Sales Mgrs. and Asst. to V.P. and Gen'l Mgr.
11. General Business Forecasting	Sales Control
12. Analysis of Potential on New and Old Market Areas	Sales Control
13. Sales Trends by Lines	Sales Control

B. *Research Relating to Product or Service*

Market Research Functions	*Responsibility Orbit*
1. New Product Development Non-engineering	Ind. Sales Mgrs. and Packaging Research
2. Improvement of Present Products	Packaging Research and Design Development
3. New Uses for Old Products	Ind. Sales Mgrs. and Sales Promotion
4. Competitive Position of Company's Products	Sales Control
5. Pretesting of New Products	Sales Promotion
6. Consumer Preferences	Homemakers Guild
7. Product Elimination or Simplification of Lines	General Service
8. Relative Distribution Costs	Asst. Sales Mgr. and Sales Control
9. Profits of Products	Comptrollers, Price Research Depts., and Asst. to V.P. and Gen. Mgr.
10. Naming of Product	Sales Promotion

C. *Research Relating to Sales Methods*

Market Research Functions	*Responsibility Orbit*
1. Advertising and Selling Procedure in Relation to Competitors	V.P. in Charge of Sales and Sales Promotion
2. Distribution Costs	Gen. Accounting, Sales Control, Price Research and General Service

3. Sales Methods or Devices	Sales Policy Committee
4. Choice of Advertising Media	V.P. in Charge of Sales and Advertising Dir.
5. Selection of Distributive Channels	V.P. in Charge of Sales and Asst.
6. Sales Performance Tests	Asst. Sales Mgr. and Sales Control
7. Sales Training	Asst. Sales Mgr.

D. *Research Relating to General Policy*

Market Research Functions	*Responsibility Orbit*
1. Price Structure	Price and Price Research Depts.
2. Sales Methods or Distribution Policy	Sales Policy Committee
3. Advertising Policy	Gen. Sales Mgr., Advertising Dir., and Sales Promotion
4. Cancellations	Production Control Center
5. Returned Goods	Design Development and Claims Department
6. Credit	Credit Department
7. Discounts	Sales Policy Committee, Price, and Price Research Departments
8. Public Relations	Public Relations
9. Dealer Relations	Asst. to V.P. in Chg. of Sales
10. Transportation	Traffic Department
11. Sales Compensation	Asst. to V.P. in Chg. of Sales
12. Premiums	Ind. Sales Mgrs. and Sales Promotion
13. Raw Material Price Changes	Purchasing Department
14. Inventory	Purchasing Department and Gen. Service

From the list it is evident that every market research function is within the responsibility perimeter of an individual or Hammond department. With regard to discharge of function, an intensive survey would be required to determine accurately the quantitative and qualitative research activities as distinguished from operational functions.

It is not the purpose of this study to be critical of individuals or departments. This analysis will confine itself to those phases of market research of which a critical evaluation can be properly made, that is, to those phases of market research for which the Sales Control Department is responsible.

In the discharge of market research functions by the Sales Control Department, there is need for considerable improvement in planning, method, and execution. Over all, there is need for continuing research rather than the type of research occasioned by specific project requests or intermittent routine assignments.

For purposes of this study it is not necessary to make an exhaustive examination of all market research phases of the Sales Control Department's responsi-

bility and activity. It is sufficient that only several typical examples be sketched as indicative of the range of improvement of all elements.

1. *General Business Forecasting.* Each year for the past three the Sales Control Department has made up a long-range appraisal of the sales potential by major accounts. To this has been added a long-range analysis of economic trends and Container Industry outlook. Benefit would flow from the continuing analysis of general economic trends both in the improvement of these annual projects and very probably in making available data on a month-to-month basis which would serve as a general guide to what the business can anticipate in terms of the immediate future. While this would require considerable development, it is very probable that three or four basic indices could be developed which would successfully anticipate company operations.

2. *Territorial analysis* so far has been handled largely on a request basis and then in a somewhat primitive way from county sales. Here again, territorial analysis should be a continuing, rather than an individual project, affair. Without question, the establishment of territorial boundaries in view of rather fixed selling costs is one of the basic elements in efficient distribution. Corollary studies would, of course, be required with regard to account coverage, salesmen's travel patterns and other similar subjects which would add down to a decrease in distribution costs or assurance that the current operation is the most efficient.

3. *Sales Forecasting.* The current 90-Day Sales Forecast is based on Division and Industry Managers' estimates with a review and adjustment by the Sales Control Department. This current practice should be a part rather than the whole forecasting process. The present practice would be satisfactory if it were supplemented by short-range economic trend analysis and an order total device which has been under discussion as a shortage report. This so-called "Shortage Report" would be the tabulation of orders and cancellations as received for the establishment of a normal, by major account, by division within branch, by branch, and by total industry. In contrast with the current factory shortage report by factory and machine type, the sales shortage report would be developed along branch and division lines. Measurement of current experience against "normals" should disclose sales weaknesses and strength a minimum of eight to thirteen weeks before sales reports due to normal service lag between order and invoice, and between invoice and sales report.

Similar examples could be cited on potential business determination and analysis, sales quotas, sales trends by lines, expense control, competitive position, and sales performance measurements.

While the above evaluation necessarily dealt with the Sales Control Department, it should be recognized that these operational weaknesses *are undoubtedly duplicated in other departments due to lack of coordination and the pressure of line function.* Consideration must also be given to the fact that in the normal growth and efficiency development of Sales Control and other departments there will be a continuing increase in both recognition and discharge of market research functions based on the balance between available staff and the exigencies of other work.

SUMMARY

A cursory appraisal would indicate that (1) we have a great deal more market research than many have realized, and (2) at the same time are lacking fuller development of many phases both from the standpoint of normal departmental recognition and execution and from the standpoint of coordination of diffused elements.

V. Development of Hammond Market Research Functions

ELECTIVES

From the evaluation of current practice, we now come to consideration of alternative lines of development in the augmenting of a market research program for Hammond. These alternatives will fall between the extremes of a highly centralized and organized division solely responsible for all research functions and the normal departmental development over the present diffused pattern. An attempt will be made to maintain an objective viewpoint by exclusion of such considerations as Company operating policies, management attitudes, and the whole range of compromise between "ideal" and "practical." As stated in the introduction, this study is limited to a presentation of elements for consideration rather than an attempt to lay out a detailed and specific program.

DECISIONS REQUIRED

In Section III, a number of considerations were outlined—position of department, internal organization, time distribution, budget, origins of subjects, and personnel requisites. All these factors will require decision in varying degrees in any type of program that is selected. Obviously, if from this study it is felt that current market research is adequate, no further decision will be required. The decision sequence which follows is offered as a guide to consideration of the development of market research in Hammond.

Decisions required are:

1. That market research development should be
   a. Along broad lines, that is, relating to markets, products, sales methods, and general policy, or
   b. Confined to the study of markets.
2. That (without regard for decision No. 1) selection will have to be made between centralized and decentralized organization.
3. That the centralized department be established to deal with the Company-wide research or limited to Hammond research.
4. That under decentralized organization, a department would be augmented to discharge all responsibilities on matters restricted to market analysis.

Based on executive decision regarding the fundamental framework, the next step would be a detailed study and analysis to bring market research to the project stage.

76. MORGAN COMPANY. Coordination of Sales and Production Departments

Not infrequently, manufacturing enterprises have been involved in serious difficulties because of lack of coordination of sales and production. This coordination must rest upon a satisfactory adjustment of sales and manufacturing effort, so that the product sold is satisfactory in both quality and quantity. There must be clear recognition on the part of the sales department of the advantages of mass production. On the other hand, the attempt of the production department to dictate to the sales department overlooks the obvious advantage the sales department possesses in enlarging market demand.

The Morgan Company, with plants in Newark and Buffalo, manufactured drop forgings. Manufacturing was in the charge of a vice president under whom were the works managers. The distribution of the products was handled through the central organization in Newark by the vice president in charge of sales. Owing to the fact that both officials possessed strong personalities, there had been considerable friction between the production and sales departments. In a recent year, when profits dropped and inventories seemed to pile up suddenly, a careful examination was made of the character of inventory. Analysis showed that for various items, of which 6 or 9 months' supply would have been ample, there were supplies, as measured by the average sales of the preceding 5 years, sufficient for many years. Exhibit 1 illustrates the stock of a few sizes of drop-forged wrenches. These wrenches were kept in stock in the "rough" (that is, after they had been forged and trimmed). They were also kept in stock and sold in "unfinished" condition, after undergoing milling and heat-treatment. Further, they were stocked and sold in semifinished and finished conditions, which were merely two grades of polishing.

Exhibit 1. MORGAN COMPANY. Inventory of Seven Sizes of Drop-forged Wrenches

Item No	Supply of unfinished	Supply of semifinished	Supply of finished
145	None	18 months	6 months
146	19 years	1 month	3 months
147	5 years	10 months	6 months
148	2 years	5 months	18 months
149	31½ years	1 year	2½ years
150	32¼ years	1⅔ years	2 years
151	80 years	7 years	6 months

The ordering of these wrenches was in the hands of a middle-aged man who had been in the employ of the company for 10 years or more. He had a good memory and was thoroughly familiar with all the details in regard to sales and manufacturing. Though he kept records in various books, which

were so complicated that they were always a month or two behind, the placing of orders was based on his memory and judgment. Upon one occasion, the stock of a certain wrench had been exhausted, and the matter had been brought to the attention of the manager by the sales department. The manager had reprimanded the order clerk, and when the order clerk went back to his desk, he had made up his mind that they would never catch him again on that wrench. Therefore, he placed orders for large quantities without realizing that the usage of this item was decreasing. This may also have been the cause of some of the overstocking of certain other items. In other cases, this man's judgment might have been correct when he placed an order, but a new wrench which better satisfied the needs of the buying public might have been introduced later by his own firm or a competitor, thus rendering the older product obsolete.

Still another cause of overstocking was that the foreman of the hammers was allowed to do very much as he pleased. If an order was placed for 5,000 wrenches and he found on completion of the 5,000 that he had enough bar stock on hand to make 2,000 more, he would go ahead and forge them in order to clean up the odd lots of bar stock. Of course, he knew nothing about the demand for these wrenches.

A little study showed clearly that the economies realized by the foremen through economical runs were much more than offset by the expense of storage, interest, insurance, and depreciation which had to be carried on these items at a time when there were many other demands for this capital. While the unusually strong financial position of this company would probably have enabled it to stand the strain, the board of directors determined that some arrangement had to be made whereby reasonable coordination of sales and production would be secured.

The directors realized that the organization should adopt certain measures to reorganize the stock system, but they felt that the necessity for coordination should be emphasized also by a change in organization directed toward filling the gap between production and sales departments. Two suggestions were offered:

1. The appointment of a coordinating official, who might be a merchandising manager having charge of specific stocks or lines, getting contact with the sales department through meetings with sales officials and through actual contact with customers on the road; in other words, a man who should have charge of stocks and approve all orders involving increase in stock or change in specifications from standards adopted. The president suggested, however, that this coordinating official be made a staff assistant to the president, reporting directly to him, and transmitting orders as orders of the president to the officials concerned.
2. That increase of stock limits and changes in specifications or addition of new products be made subject to committee decision, the committee to con-

sist of the production manager and superintendent, the president, and the sales manager.

Which plan was preferable? What other measures were required to bring about a healthy condition?

CASES IN BRIEF

1. The Jaffrey Theatre Supply Company distributed theatrical equipment and supplies in the United States, through 4 major sales offices which directed 28 branches in important cities. Each branch manager, whose chief function was selling, reported to his district manager who, in turn, spent most of his time traveling and supervising branch operations.

The problem of control of credits and collections had been a troublesome one for the company. For several years after its organization, credits were controlled by local branch managers; but because of excessive liberality, outstandings began to increase and repossessions of equipment for nonpayment began to mount. Collections were not so energetically pursued as was deemed desirable by the district managers. Consequently, in order to secure greater control of credits and collections, the company concentrated its accounts receivable ledger of the various branches in the four major district offices. Lists were provided each branch office to guide them not only in billing but in establishing a definite credit limit for customers which were based on information obtained from branch reports, extracts from trade papers, and the company's own ledger experience. Collections were actually undertaken by district offices although nominal responsibility rested on branch managers.

After two years, delays in granting credits, caused by requirements of district approval in cases such as new accounts or credit extension beyond limits, began to bulk seriously in the executives' minds. Furthermore, branches did not know promptly what was owed or what was paid by customers. Tactless handling of customers by district personnel annoyed and at times infuriated branch managers who recognized that the number of customers was limited and the loss of customers through carelessness was dangerous. It was proposed, therefore, that the credit and collection responsibility should be returned to branch offices with proper safeguards.

What can be done to secure the advantages of local branch control of credits while minimizing the disadvantages?

2. The Rindge Stove Company, incorporated in 1886 for the manufacture of gas ranges, secured national distribution through manufacturers and distributors of illuminating gas who sold the ranges in order to increase the consumption of their product. Sales in recent years approximated $2,000,000. Arrangements had also been made for outlets, principally furniture and general merchandise stores, in territories where there was no competition with the gas manufacturers through whom distribution originally was effected.

The Rindge Stove Company was planning to engage in an aggressive advertising campaign. For this, $25,000 had been appropriated, and the services of an advertising agency had been retained. In view of this fact, it was suggested that the company's advertising department be discontinued.

The company had not advertised in former years, but it had maintained an advertising department composed of three men and seven girls, with a total payroll of $17,000 a year. One function of this department was to answer inquiries from retailers or consumers concerning the company's product. This required one-fourth of its time. The principal function, however, was to create distributor

good will by preparing advertising copy to be furnished to the retailers free of charge; each retailer was to defray the expense of inserting it in local newspapers.

It was suggested that, since the advertising agency was to be retained, the entire burden of the advertising should be delegated to it. The company, moreover, had confidence in the agency, and it was unnecessary to have more than one check for the purpose of controlling its activities. The preparation of advertising copy for use by retailers, however, could not be done so satisfactorily by the agency as by the advertising department. The relationship, moreover, which was maintained with the distributors and consumers through the answering of inquiries could not be continued by the advertising agency, since it did not possess sufficient knowledge of the company's equipment to enable it to take over this function. It would be necessary, therefore, if the department was discontinued, to retain two clerks at a cost of approximately $3,000 to perform this service.

It was estimated that the cost to the company of placing a definite quantity of advertising was the same whether or not the services of the agency were retained since the agency derived its profits from commissions paid by publishers in consideration of the volume of advertising which it secured. Although the agency was made up of men trained in the field of advertising, valuable ideas had been contributed by the company's advertising department. A combination of the knowledge and experience of the two seemed desirable.

Should the company have maintained its advertising department? If so, what should be the functions of the advertising manager?

3. When Mr. Fowler McCormick became president of the International Harvester Company in 1941, the company's fundamental organization had not been altered in many years but had grown rapidly. It was organized in the common pattern of vice presidents exercising supervision over specific functions such as manufacturing, sales, foreign sales, engineering, and accounting, with each man responsible for the operations of his department. The vice president of manufacturing, for example, was responsible not only for every product in the company's United States plants but also for manufacturing in Australia, France, Sweden, Germany, and Canada. The engineering vice president was responsible for the design of hundreds of products of various types. The vice president in charge of sales sold everything from binder twine to special-purpose motor trucks.

In February, 1944, Mr. McCormick, now chairman of the board of directors, made the following announcement to company employees regarding the decision of the management to utilize a divisional form of organization:

"The general manager will have under him as heads of the various groups a manager of engineering, a manager of manufacturing, in some cases a manager of sales, a manager of supply and inventory, and a divisional comptroller.

"A division, with its general manager reporting directly to the president, is an autonomous unit in the sense that it is charged with the responsibility for the design, production, and, in some cases, sale of a given product or group of products, and that it will operate with a large degree of freedom of decision and action in reaching its objectives. Its autonomy and its freedom, however, are contained within the framework of established Harvester policy and procedure. It also will be guided by the influence of the vice presidents and the departments under their supervision.

"Even if our company becomes fully divisionalized, there still will remain under the vice presidents departments which, together with the vice presidents, will form policy and procedures to be carried out by the divisions. For example, the divisions will operate in accordance with policy and procedures laid down by

the labor relations department, under the vice president of manufacturing; the accounting department, under the vice president and comptroller; and the order and distribution department, under the vice president of supply and inventory. In addition, these departments will render expert services to all divisions.

"Divisions will be of two kinds. There will be the complete division which includes a manager of sales and a sales organization under him. There will also be partial divisions which will not have a manager of sales and a sales organization but which will act as designing and producing divisions which 'sell' their product to a general line sales department.

"The choice of this type of organization rests upon our firm conviction that our farm equipment dealers constitute by far the best retail organization we could have through which to merchandise the great majority of our products. We believe it highly desirable to pass as many of our products through these dealers as possible, and, on the other hand, we believe that this policy will tend to build dealers of a continually higher caliber who will operate a business which will grow and be increasingly profitable to them.

"From time to time, for many years, the management of our company has discussed whether a divisional form of organization would be a good thing for our business. There has been no question of the desire of Harvester people to cooperate with one another, but we have become increasingly aware of the fact that they have been to a certain extent hindered in so doing because of the form of organization under which they were working. It is probable that the stress of wartime demands and the view of future trends which our postwar planning has brought to us have recently made the idea of divisional organization seem of greater importance to us than ever before.

"The result of our deliberations was the conclusion that the growth of our business, not only in size but also in variety of product, was such that we should move at once toward the adoption of a divisional form of organization. Following this decision, announcement was made of the creation of the Motor Truck Division.

"A division, in the sense in which we now use the term, is a new unit in our company. It differs from a department in that a department deals with only one function, such as engineering, personnel, or sales, whereas a division is a group of departments each of which is concerned with its own functions, but all of which are interested in the same product or group of products.

"The head of a division is a general manager who reports directly to the president.

"Turning from a description of the divisional plan to its purpose, it can be briefly stated that the main objectives are as follows:

1. To reduce the number of operating responsibilities carried by our higher executives, thus giving them more time for policy formation and forward-looking planning, and also to accomplish the desirable result of placing more responsibility and authority in positions closer to the operating levels.
2. To provide a form of organization which will enable representatives of different departments to work more closely together in the interest of some given product or group of products.
3. To encourage the development of a larger group of capable and experienced major executives.

"The high degree of cooperation which now prevails between all members and departments of the Harvester organization is a profound source of satisfaction to the company's management. Without it, our recent achievements would have been impossible.

"Had we felt that the introduction of divisional organization into our company

would in the slightest degree impair this spirit of cooperation, the plan would have been summarily rejected.

"We are confident that the introduction of divisional organization into our business will prove a great stimulus, that it will clear new channels for the energies and creative abilities of Harvester men and women, and that it will strengthen our efforts towards winning the war and meeting the severe competition from old and new sources which we all know will face us in postwar days."

4. In one of the larger tire manufacturing companies, considerable success had been achieved in lowering costs in its factory operations through the work of an efficiency department. The president felt that possibly a somewhat similar department might be established in the sales organization and for general office operations. It was suggested that the work of a sales efficiency department might include a study of the efficiency of all general office employees and of methods and systems; an investigation of the expenditures of all general office departments; a study of the efficiency of the company's branch and wholesale organizations including not only selling operations but also accounting, records, branch building, inventories, and the like; and finally, a study of the business operation of independent dealers who were important outlets for the company's tires. The objective of the entire work as proposed was to lower distribution costs in relation to sales in order that the tire company might thereby enjoy a larger net profit.

Should such a department be established? To whom should the head of this department report?

5. Outline the various organization and operating measures which may be used for coordinating the effort of (1) sales and advertising departments, (2) export sales and domestic sales departments.

6. "It is easily understood, therefore, that the export manager is really a general manager of the foreign division of the business. In order that the export manager secure the best results, he should not be unduly controlled or subjected to the rules and regulations of the domestic executives. He should be given full authority to conduct the export business independently and should stand or fall upon his own record."

Do you agree?

7. The sales department of the Fairchild Automobile Company is under the control of the vice president in charge of sales, who is aided by a sales committee. The director of service reports directly to the vice president. Under him are four territorial assistants who are on the road practically all the time, checking up performance of new models and making reports, which are turned over to the engineering department. The service work necessary, however, when a distributor is having trouble with a new model or is unable to repair a car satisfactorily is performed by six service travelers, operating out of the central office. They are routed to aid all the distributors requesting help but do not ordinarily call upon dealers. This work is left to the distributor himself. At the same time, the service director has charge of a traveling mechanical school. Questions have been raised concerning the location of the service department.

Should it remain where it is, be transferred to the engineering department, or be placed elsewhere?

8. To what extent may organization measures provide for the coordination of sales and production departments? If budgetary control is adopted, are organization measures necessary?

9. To what extent should a firm depend upon outside advertising and marketing research agencies for sales research and sales planning?

10. Should the credit department be a part of the sales department, or should the control of credits be given to the financial department of an enterprise? What organization and operating measures may help to coordinate credit and sales management?

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8. *Management of Salesforce*

The selection, training, and direction of salesforces has presented new and unusual problems in the postwar period. The persistence of sellers' markets in many fields and the turnover of salesmen and of sales managers in the years since World War II began have brought problems of types which neither training, experience, understanding, nor attitudes have enabled them to meet with confidence. During the war and immediate postwar periods, selling in many lines where short supplies existed was replaced by allotment. In such cases, salesmen not infrequently became careless and "soft," even arrogant. Where supplies were sufficient, salesmen on commission plans enjoyed earnings increased beyond all expectation. While some firms dismissed salesforces and others had nothing to sell, many more endeavored to conserve market position and preserve the nuclei of sales organizations against future needs. The somewhat unexpected delays in the coming of the buyers' markets aggravated the difficulties of maintaining and developing salesforces for harder sledding ahead. When buyers' markets appeared, adjustment of salesmen and sales managers to a new order of selling requirements was more painful than even the most seasoned sales managers had anticipated. The revival of sellers' markets in the latter half of 1950 and renewed threats of shortages interrupted what promised to be a healthy adjustment to buyers' markets. Full adjustment to conditions which require aggressive and intelligent personal selling has not yet been achieved. Rather, there is some evidence that in limited fields the weakness of personal selling is bringing about a reduction in its importance.

Basically, the problems of managing a salesforce include primarily those encountered in managing any personnel group, selection, training, compensation, and the manifold problems of supervision during employment. The differences between the problems of managing a salesforce and those of managing other groups of personnel are largely based upon the fact that a salesman frequently operates alone, far from the personal supervision of his superior. As a consequence, adjustments must be made in every phase of the management of the salesforce to the customary weakness of supervisory contact between superior and salesmen.

The salesman enters his work largely as a result of an agreement between himself and the employer. In making the decision, both salesman and em-

ployer are taking risks: if either is careless, one or both suffer. A poor or dissatisfied salesman may do an employer irreparable injury. On the other hand, it is to the interest of the salesman to secure employment which is agreeable to him with a concern in which he has faith and confidence and which does not require a capacity beyond that which he possesses. An employer loses by failure or inability to select salesmen properly, because poor selection eventuates in poor results and large turnover in the salesforce. Both are expensive.

There are a number of sources which are commonly utilized in attempting to build up a salesforce, among which may be mentioned:

1. Men who have been working in the office, in the production, or other departments of the company which is seeking salesmen. Other things being equal, it is obviously wise for a sales organization to promote a man within the enterprise. However, sometimes satisfactory candidates are not available within an organization. Experience of the company may have shown that men with production or other experience are not usually entirely satisfactory. Nevertheless, the dangers of destruction of morale are real and important if opportunities for promotion are not made available to employees.
2. Salesmen who are, or have been, working for other companies, either competitors or companies in related lines. Many sales organizations make it a point to hire experienced men of this type; there are certain advantages in hiring experienced men, but there are also certain disadvantages in a possible lack of permanence or of loyalty to the new connection. Not a few companies never hire former salesmen of competitors; many more regard it as unethical to take any action in hiring competitors' salesmen. Companies selling to retailers may find in the retail clerks possible candidates for positions as salesmen. Retailers are not in competition with the manufacturer or wholesaler; and the retail clerk is intimately acquainted with the problems and methods of the prospective retail customer. He may, therefore, be able to perform valuable service and assist dealers successfully in terms of sales and profits. Salesmen may also be hired from allied or different noncompeting businesses.

   In so far as there are fundamental and even superficial similarities in selling as between different types of products, there is justification for the point of view that it is more important to hire a man with selling ability than to hire one who is intimately acquainted with some type of product. The possibility of successfully transferring experience in a particular market to other products would, however, seem to be less questionable than the possibility of transferring knowledge concerning a given product from one market to a strange market.
3. Sales executives who prefer to develop inexperienced men into junior and then senior salesmen may choose men who have been engaged in other occupations. They may sometimes take young men fresh from various types of educational institutions, the particular type of institution approached depending upon the nature of the selling task, whether requiring technical training, or general or specialized business education. In numerous com-

panies it is known that college-trained men, although harder to develop, have made good; in others, college men have been unsuccessful. As a result, some companies prefer not to use college men for their salesforces; others will not accept one who has not had that training or its equivalent.

A. SELECTION AND TRAINING OF SALESFORCE

The sales executive who is hiring salesmen will utilize one or more methods of securing candidates. He may secure proposals from members of his own organization; he may select likely candidates from those who apply voluntarily; he may advertise in newspapers or periodicals; or he may scan the "positions wanted" columns in such publications; to a less extent, he may use employment offices or employment bureaus, although employment offices of educational institutions will be invaluable for those contemplating the hiring of inexperienced candidates for sales positions. Lastly, other businessmen, as well as other executives with whom the sales manager comes into contact, may be in a position to recommend promising candidates.

A company hiring salesmen should previously have determined as accurately as possible the general types of work which a salesman is expected to do. Scarcely a beginning has been made in job analysis for salesmen to determine the kinds of work they must do in order to operate successfully. The average sales manager has no accurate understanding of the amount of each kind of work to be done or the methods most suitable for efficient performance of a given sales task. Nevertheless, men must be hired to make sales contacts, and the qualifications of men who perform such tasks must be determined. Numerous lists of the characteristics of good salesmen have been made. One list includes good character, personality, health, native intelligence, concentration, industry, self-confidence, punctuality, tact, initiative, resourcefulness, knowledge of goods. However, knowledge of the general and special qualifications needed for successful salesmanship does not help the sales executive unless there is some way of determining whether a candidate for a position possesses those qualifications or not. The fact is that very few men know themselves, and it is often more difficult to appraise accurately the qualities of others.

One may classify the qualities which have a bearing upon selling success into three groups: (1) character traits which bear directly upon success in selling, (2) intelligence or mental alertness, and (3) certain conditions which have an undetermined bearing upon success in a particular sales task, such as marital status, schooling, number of dependents, age.

Several means are used to ascertain whether a prospective salesman is suitable for a specific position; these are generally classified as interviews, application blanks, psychological tests, and certain measurement devices.

The most common method of hiring salesmen utilizes the personal inter-

view. It possesses distinct advantages; the employer may secure a definite impression of personality which could not be obtained so quickly in any other way. A sales manager attempts to appraise a salesman in the course of an interview in which he asks certain questions which seem to him to be important or revealing. The conversation may relate only in part to the position to be filled.

Experience has shown that the single interview method has been very faulty. Men vary widely in their ability to evaluate other men. To correct these faults, some companies have attempted to bring about for each candidate for selling positions a series of interviews with one individual or a series of interviews with different individuals. These methods tend to reduce the risks of hiring salesmen purely on account of superficial characteristics or personality, without due regard to fundamental requirements. Intelligent and purposeful interviewing for purposes of hiring, appraisal, adjustment, or discipline is likely to be the exception rather than the rule unless definite steps are taken to train those who are to have interviewing responsibility. In more recent years, the art of interviewing has received more attention and the sales manager in a large organization can, if he wishes, take tested steps to improve the interviewing practices of his subordinates.

To bring about greater care in the formation of judgments and bases for comparison between interviews, the rating scale is frequently used. A rating scale possesses two characteristics: enumeration, sometimes definite classification, of the qualities of an individual and measurement of the degree of each quality.

The second most common method used in the selection of salesmen is the application blank or letter of application. The application blank or letter is used for three purposes:

1. To furnish a basis for reducing the number of candidates for a sales position so that interview time may not be wasted on obviously undesirable applicants.
2. To supply a more detailed record which would be useful both in hiring and for study in connection with the performance of men who have been hired. The application blank usually requires statements as to personal characteristics, marital status, business experience, and references. The preferences of various companies and ideas which firms have as to the qualifications required for a job are reflected in the variations in application blanks. Small companies may use prepared application blanks; large companies may have application blanks prepared to suit their purposes more precisely.
3. Companies which have determined to some degree the relationship between characteristics of candidates revealed in application blank data and success in selling may make use of the application blank to furnish a supplementary grading of applicants. Through a process of rating the positive or negative value of education, marital status, home owning, age, etc., based on extensive study, certain firms have found it possible greatly to improve selection.

There are various techniques by which a manufacturer may arrive at the questions which he should include on his application blank or personnel record; likewise, various techniques for determining the relative significance of such questions. While most companies make no systematic use of application blank data, one company undertook to score each of the items on its application blank after 10 years' experience with it to determine which questions seemed to vary significantly with job success. It then reduced the number of questions to 25 by eliminating all those which seemed to have no relationship whatever to success. In the course of succeeding years, a few additional items were added, some for informational purposes and others because it was believed that some value might be attached to answers later. Obviously, questions were added to furnish information on military records, but the general objective was to keep changing the personal history record so as to keep the blank equipped with questions which had shown evidence of a high correlation with satisfactory selling performance. This particular company checks its records each 2 years.

During the past decade, greatly increased use has been made of psychological tests as a supplementary method of selecting salesmen. The application of certain types of tests received its first great impetus during and immediately after World War I; but for a number of years thereafter, efforts to use psychological tests in the selection of salesmen were generally not attended with success in most types of business. In the field of life insurance, however, where careful experimentation was carried on for many years, aptitude testing for prospective insurance salesmen became an accepted part of selection procedure. In general, the various types of tests developed by psychologists to secure further insight into personality traits were slow in gaining ground in business because the correlations between test grades and success in selling were frequently not significant. So-called intelligence or mental alertness tests proved to have some value in screening out a significant proportion of potential failures, but not all were screened out. Other tests, such as those for qualities of extraversion, introversion, ascendance-submission tests, and the like, required skillful handling, and the results were far from attractive enough to interest businessmen confronted with immediate problems of selection. Moreover, in addition to charlatans and incompetents who trade on the term "psychology," the very real difficulty of experimenting with tests slowed up progress in important areas. It required much more patience than the average businessman possessed to experiment with tests for years before knowing whether those under consideration would be of significant help or not. One competent psychologist tested certain well-known tests for 5 years at considerable expense to a particular firm and at the end of that period had to confess failure and start anew with other tests. Another company asked a competent psychologist to develop special tests for its own purposes in selecting salesmen. Again, a long period of testing these special tests brought

less success than had general tests previously interpreted by an aptitude testing organization.

Progress made since 1939 has been due mainly to the consistent application of several ideas. The tasks of salesmen are varied and complex, and the selling jobs for different concerns to different types of buyers increased further the complexity of the problem of selection. The idea had developed that any application of psychological tests for selection purposes should include several types of tests for different groups of personal qualities. The hypothesis was set up that the answers of successful salesmen in certain types of sales work would form a consistent pattern. And after considerable experimentation it was perceived that consistent patterns did emerge for particular types of work, though for particular tests there was no positive correlation that would in itself be helpful. Finally, these patterns derived from the experience of psychologists with particular types of salesmen could be used to judge applicants for similar jobs. So much evidence of the improvement in selection brought about by the application of these ideas has been demonstrated that today the number of firms using batteries of tests and having interpretations made by expert psychologists has increased rapidly to include many of the most progressive firms in the country. Whereas in the middle thirties it was difficult to find a score of important manufacturing firms using psychological tests, it would not be difficult 15 years later to find a thousand or more firms which are either definitely using or are experimenting with such tests for salesmen.

Among the remaining methods used by sales executives for selecting salesmen are systems of so-called character analysis, advocated by various persons whose assertions have been thoroughly discredited by scientists. Some sales managers also select on the basis of handwriting and facial characteristics, both of which have likewise been shown to have no helpful correlation with traits of character. No dependence can be placed upon photographs or upon handwriting as indicators of the possession or lack of possession of characteristics required for sales positions.

Training of Salesmen. The need for training salesmen arises from the fact that, on the whole, a newly hired salesman does not know the products which he is to sell. He may not know the buyers individually or collectively, nor may he know how to sell the products or present them to buyers. The result of investigations of cases of hiring and firing have shown very clearly that the costs of breaking in new salesmen are large. The practice of sending out salesmen to train themselves has been supplanted by definite plans for training in well-managed companies, both to reduce turnover in the salesforce and to increase efficiency of old as well as of new salesmen.

The extent of training required depends (1) upon the difficulty and complexity of the selling task. The task is more difficult if it is necessary to create demand than if a product is a well-known staple, or if a product is a

complex one which is not readily understood either in use or in construction. (2) The extent of training required depends upon the amount of general education and training which a salesman may have had; it may be greater for a high school graduate than for a college graduate. (3) The need for training will be affected by a salesman's previous selling experience. The experience of a shoe salesman in selling shoes may be readily transferable to another shoe company; likewise, to a greater extent than is ordinarily supposed, the general methods in a particular trade may be transferred to another trade with success. (4) The amount of training needed will depend upon the type of buyer whom the salesman is to approach. The salesman who is entrusted with the task of approaching expert buyers of a product must have more intimate knowledge of his sales proposition than a salesman who is approaching buyers with no technical knowledge who are primarily interested in the use of the product, which may be simple.

The content of the training which a salesman should receive may be divided into three parts:

1. He should know his product and sales proposition, and the history and organization of his house; he should thoroughly understand the policies which the company has adopted with reference to its business transactions; he should understand that for best results his efforts must be coordinated with those of other salesmen, with the sales department, and with other departments of the enterprise, such as merchandising, accounting, and production.
2. Since a salesman should know the types of buyers of his product, who are the buyers and how to find them, the training course must provide some method of acquiring this knowledge. Too often the sales manager does not furnish significant data or significant information about customers, prospects, or classes of buyers. Many sales managers feel that the training job should be confined largely to instruction concerning the product and not to selling methods. The omission of training in relation to the market is the weak point in the usual teaching program.
3. The most difficult portion of the training of salesmen relates to the teaching of salesmanship, that is, teaching a salesman to use his knowledge of the product and his knowledge of the market in such a way as to accomplish the purposes for which he was hired.

Frequently but little training is given. A salesman is encouraged to study his product and trust to experimentation and experience to suggest methods of presentation to specific customers; or sometimes the company furnishes a sales manual or a house bulletin or in personal contact suggests methods which may have been used successfully in selling. Some firms have organized courses and schools for training salesmen; other firms recommend or require a standard sales presentation as a part of the training. This presentation may or may not be required in actual conduct of the selling work. An increasing number of companies provide for practice selling under the tutelage of

another salesman, official, or instructor, that is, essentially, "training on the job."

Even before the end of the war, the training of salesmen began to receive attention. Several factors were responsible. Because of the ease of selling, many sales managers believed that salesmen already hired would have to be retrained in order to sell successfully in the coming buyers' market. It was expected that large numbers of new salesmen would have to be hired to build salesforces and that the men returning from the armed services and essential industries would have been out of touch with selling for several years, so that they would likewise have to be trained or retrained. As a part of its broad-gauge effort to urge businessmen to prepare for the expected downturn in business activity, a program was inaugurated by the Committee for Economic Development in conjunction with the National Society of Sales Training Executives and meetings of sales executives were held in many cities of the United States to impress upon sales executives both the necessity for and the essential principles and methods of effectively training salesmen. Individual firms have prepared elaborate training programs and put them into operation. The continuing need for training has become more evident as successively different branches of business found themselves in a position where intelligent and aggressive selling was needed to maintain profitable operation.

77. LINDSTROM FLOUR MILLING COMPANY (B). Study of the Salesman's Task

The Lindstrom Flour Milling Company with executive and sales offices in New York owned and operated a number of mills and food processing and packaging factories in the Middle West. The salesmen had always been paid straight salaries with reimbursement of business and travel expenses. In 1948, in order to find a more systematic method of determining the salesmen's levels of income, the job evaluation technique used in setting salaries of office personnel was experimentally applied to the selling positions.

The packaged consumer products, handled by the packaged products division, were sold through grocery wholesalers to retailers and direct to the chains, all over the country. The bulk sales division sold flour direct to bakeries and other manufacturing establishments on a national basis. About 350 jobbing and retail salesmen of the packaged products division canvassed the grocery trade under the supervision of the sales manager for packaged products. The jobbing salesmen obtained national intensive distribution by soliciting grocery wholesalers. The retail salesmen performed primarily "missionary" services, calling on retail stores making introductory sales, obtaining preferential display space and securing cooperation from the retail grocers in supporting special promotions. In a few territories, the jobbing salesman supervised the activities of the several retail salesmen in his area.

In other territories, supervisors were employed for the purpose of training retail salesmen.

The bulk sales division was organized with 150 salesmen under the functional supervision of the bulk products manager. Most of the salesmen sold flour, but a few specialized on industrial sales of a number of by-products. Included was a group of 20 to 30 technical sales servicemen, who were at the disposal of the territorial salesmen in special situations where study of the customer's products and processes was needed to insure optimum application of Lindstrom products.

The task that salesmen were expected to perform varied widely in different territories. In metropolitan areas, some salesmen had a lucrative business calling on large accounts or alternatively, had many smaller customers in a limited area supported by a concentrated population. In rural areas, salesmen traveled greater distances only to obtain fewer and smaller accounts and orders. Lindstrom's sales territories had been established as the company grew with changes in territory boundaries made as the need arose in individual cases. The intensity of competition varied in different parts of the country. In some territories, demand for the company's products was well established. In others, the salesmen had to develop wider distribution and put in much time on promotional work, building good will for the company—work which would not pay off in sales until some years later.

The executives were not satisfied with straight salary as a permanent method for paying salesmen because it provided no automatic extra compensation for men who did an above-average job. It was expected that the company would benefit from the incentive values that might result from a salary and commission or salary and bonus plan. Incentive plans which had been proposed were not put into effect because of the lack of satisfactory means of determining fairly the relative potentials of the salesmen's territories and establishing sales quotas upon which bonuses or commissions could be based.

Outside of the sales department the company had made progress in establishing an objective relationship between the salaries or wage rates and the requirements of jobs in most of its plants and offices. During World War II a firm of consulting management engineers had assisted in installing a job evaluation system for the clerical employees of the company which was referred to as the "Position Measurement Program." There were 23 primary common factors by which each position was measured, grouped under four headings, skill requirements (weighted 48%), responsibilities (weighted 40%), effort demand (weighted 7%), and physical conditions (weighted 5%). Maximum point values were assigned to each of the 23 factors as in Exhibit 1. Each factor was further broken down into from 8 to 12 degrees for which points ranged from 0 to maximum. For each degree a specific

descriptive paragraph detailed the conditions which would indicate that degree of the particular factor. The evaluation of a job was carried out by an official specially trained in the job evaluation technique who chose the descriptive paragraph under each factor most nearly approximating the conditions and requirements of the job under consideration.

Exhibit 1. Comparison of Points Determined for Each Factor for Each of the Four Selling Positions

	Points		Max	Retail	Jobber	Bulk	Technical
Skill requirements	960	(48%)					
1 Basic knowledge			200	50	75	75	130
2 Knowledge of merchandise and products and materials			80	16	32	32	48
3 Knowledge of company operations and procedures			80	8	26	26	44
4 Previous experience required			120	14	24	24	53
5 Learning time			40	12	16	16	24
6 Judgment			120	15	45	45	45
7 Ingenuity and creativeness			60		10	10	35
8 Relationships inside company			60		10		20
9 Relationships outside company (non-customer)			40		10	10	10
10 Relationships with customers			80	25	40	40	25
11 Accuracy			60	6	12	10	25
12 Manual dexterity			20	6	6	6	
Responsibilities	800	(40%)					
13 For work of others (line control)			200		8		
14 For functional control			100				
15 For policy formulation			200				40
16 For policy interpretation			120	10	20	20	
17 For investment in capital, assets, and inventory			120				
18 For care of company assets			60	7	7	7	
Effort demand	140	(7%)					
19 Mental concentration required			90	18	18	18	45
20 Physical effort			50	20	10	10	10
Position conditions	100	(5%)					
21 Physical conditions			30	12	12	12	12
22 Travel required			50	20	20	20	50
23 Personal hazard			20	10	5	5	5
Total	2,000	(100%)	2,000	249	406	386	621

The general sales manager disagreed with the evaluations made by the consulting firm, and he appointed a sales personnel manager early in 1949 who undertook to develop new job descriptions. The new job descriptions were as follows:

Position Description

Title: Retail Salesman Department: Sales

General Responsibilities:

Under direction of the Branch Office Manager and/or Package Sales Supervisor, contacts retail grocery outlets for the purpose of selling our products, merchandising our products and placing point of purchase advertising materials.

Advises Branch Manager and/or Package Sales Supervisor of competitive activity, new products, etc.; reports daily and weekly to Branch Manager and/or Package Sales Supervisor.

Specific Duties:

(A) Regular

1. Call on retail grocery outlets.
2. Make introductory sales.
3. Merchandise products in each store.
4. Effectively place point of purchase material in each store.
5. Prepare detailed record of each call.
6. Prepare a daily report form and mail to the office each night.
7. Prepare a weekly report form and mail to the office each week end.
8. Prepare weekly automobile report and mail to the office each week end.
9. Be responsible for proper maintenance and care of company-owned automobile.
10. Advise Branch Office Manager and/or Package Sales Supervisor of competitive activity, new products, price changes, business trends in territory.

(B) Special and Occasional Duties

1. Attend sales meetings.
2. Occasionally conduct store sales or demonstrations.
3. Attend trade association meetings, conventions.
4. Work in conjunction with other manufacturers' representatives in special promotions.
5. Travel into other territories to assist in the introduction of new products.

Contacts on the Position:

(A) Inside Contacts: Branch Office Manager and/or Package Sales Supervisor; occasionally other personnel of the Branch Office.

(B) Outside Contacts: Retail Grocers and members of various trade associations.

Travel: Daily travel in company-owned automobile. Extent of travel determined by geographical size of territory.

Supervision: None.

Equipment: Company-owned automobile.

Position Description

Title: Jobbing Salesman Department: Sales

General Responsibilities:

1. Sell wholesale grocers and corporate chains all package products.
2. Introduce and sell new package products.
3. Keep trade informed on supply, price trends, advertising schedules and seasonal demands of our products; also of the trend of their current purchases (and sales) of our products compared to previous periods.
4. Assist customers' Merchandising, Advertising, and Sales Managers in promoting the sale of our products through their respective advertising media. (a) Check customers' advertising performances.
5. Maintain necessary inventory control on our products among wholesale grocers who do not maintain such control themselves.

(a) Check each wholesale grocer's warehouse to see that our products are properly warehoused.

6. Maintain friendly and cooperative relationship with all customers.
7. Keep company advised at all times of competitive activity, price changes and trends pertinent to my territory.

Specific Duties:

(A) Regular

1. Call on wholesale grocers and corporate chains regularly.
2. Maintain records necessary to complete an intelligent call.
3. Submit a weekly report to the Branch Manager of activities.
4. Submit a weekly business letter to the Branch Manager.
5. Submit all advertising copy available as a result of cooperative advertising by wholesale grocers and chains.
6. Submit reports on competitive prices.
7. Submit a weekly expense account and automobile report.
8. Reply to specific inquiries made by my customers.
9. Attend conventions, food shows, trade outings.
10. Entertain customers.

(B) Special and Occasional Duties

1. Investigate and rectify consumer complaints.
2. Inspect spoiled or damaged goods on which customer has requested credit.
3. Attend sales meetings, conventions, dinners.

Contacts on the Position:

(A) Inside Contacts: Branch Manager, Package Sales Supervisor, Retail Salesmen and other personnel of the Branch Office; occasionally, personnel from the Division Office or Company Office.

(B) Outside Contacts: Wholesale grocers, trade association members, merchandising managers, and advertising managers.

Travel: Determined by the geographical size of territory.

Supervision: None.

Equipment: Company-owned automobile.

Position Description

Title: Bulk Salesman Department: Sales

General Responsibilities:

Responsible for sale of products by means of personal contact with customers and potential customers. This entails servicing accounts already buying our products and the introduction of our products to new customers. The salesman covers accounts of various degrees of importance to the company.

Specific Duties:

(A) Regular

1. Make personal calls on customers and potential customers.
2. Advise customers of price changes and changing market conditions.
3. Explain the use, advantages, and proper application of our products.

4. Introduce new products to regular customers and potential customers.
5. Advise customer of market conditions affecting the supply of our materials.
6. File sales reports covering his daily contacts.
7. File weekly summaries of his sales reports.
8. Report business conditions, both general and specific, among his contacts.
9. Report to his office changes in competitive prices.
10. Report changes in competitive selling terms.
11. Report any developments in competitive activity and organizations.
12. Obtain samples and prices of competitive products.
13. Encourage the use of special handling equipment where advisable.
14. File expense account reports.
15. Introduce engineers and technical representatives to customers.
16. Handle complaints from customers concerning our products, service, or any other phase of the sales transaction.
17. Have daily phone and mail contact with his office.
18. Post customers on the most economical method of buying and using our materials.
19. Report any changes in customer's status which might affect credit relations.
20. Maintain records on customers indicating orders, deliveries, calls, and so on.

(B) Special and Occasional Duties

1. Attend conventions.
2. Attend sales meetings.
3. Attend trade organization functions.
4. Entertain customers and potential customers.

Contacts on the Position:

(A) Inside Contacts: Branch Office personnel.

(B) Outside Contacts: Customers, trade associations, etc.

Travel: Frequent and varied according to geographical size of territory.

Supervision: None.

Equipment: Company-owned automobile.

Position Description

Title: Technical Sales Representative

General Responsibilities:

Responsible for the technical and application aspects of our products in the various industries in which they are used. This is done through developing suitable contacts with both existing and prospective customers. In the industries approached, must keep the company informed on possible future new competitive developments affecting the sale and use of our products.

Responsible for developing information on possible failures of, and complaints on, products in application.

Specific Duties:

(A) Regular

1. Make personal calls on the technical personnel of customers and potential users.
2. Explain use, advantages, and proper application of products.
3. Wherever possible, make a demonstration using our products.
4. Report competitive materials met with in specific uses.
5. Obtain samples of these materials and request what tests should be made to enable proper choice of our material for trial.
6. Report and describe operations in customer industries not using a Lindstrom product, for which in their judgment, one of our manufacture could be developed.
7. Introduce these new products initially to such applications in customer's or potential customer's plant.
8. Report on availability of competing materials, especially those outside our industry, and the possible effect on the use of our materials.
9. Report on any process changes, or adoption of new equipment that may affect the use of our materials adversely or advantageously.
10. Report on economic impact of customers' competitive materials in customers' use of our products.
11. Report on and follow up complaints on our products from technical viewpoint.
12. Keep conversant with research programs in customer industries and report needs for research by us.
13. Make reports on all contacts.
14. Conduct direct correspondence with customers.
15. Give information of a technical nature to customers in an expert capacity other than that dealing with the specific use of our material to create good will.
16. Keep informed on changes in customers' technical personnel.
17. Constructively criticize technical aspects of company's advertising, offer ideas for technical advertising needs.
18. Watch for and report on changes of customer industries' attitudes toward our products as they may affect their standing in various good standards.
19. Create access for our regular salesforce to technical, operational and other personnel in a customer's plant or establishment.
20. File expense accounts.
21. Develop and report on the possible handling of our materials in bulk. The engineers of our staff are to make recommendations and submit plans on the most efficient and economic way to handle these products.
22. Instruct sales representatives on uses and application of our materials, also on the characteristics of the products.

(B) Special and Occasional Duties

1. Attend conventions.
2. Attend meetings and address our sales groups, when requested.

3. Address customers' trade and organization meetings on technical aspects of our and customers' industries.
4. Write articles for the technical and trade publications.
5. Attend trade organization functions.
6. Entertain technical and operational personnel of present and future customers.
7. Get in touch with universities following up our own and other fellowships.

Contacts on the Position:

(A) Inside Contacts: Branch, Divisional and Main Office personnel. Some contact with manufacturing and research personnel.

(B) Outside Contacts: Customer purchasing and technical personnel, trade associations, technical societies, university personnel.

Travel: Varied over comparatively large geographical sections.

Supervision: None.

Equipment. Some company-owned automobiles, or their own; refractometers, other special instruments, etc.

In studying these jobs, the sales personnel manager recognized a very wide range of job requirements, salesman capability and performance within each classification; bulk salesman, for example. This range of job requirements was broader than could be included in one position grade and salary range established in the company-wide system which provided a variation of 30% from minimum to maximum salary for any one grade (plus or minus 15% from the mid-point). Working out a relationship between the actual salaries of the salesforce and the company-wide salary ranges required reconciliation of the narrow, established ranges with broad ranges in job requirements within the salesforce. The problem of bringing the salesforce salaries into the pattern set by the company-wide salary ranges was further complicated by the requirement that salesmen with creative jobs should not be given the feeling that their salaries were limited by an established maximum regardless of outstanding performance.

Are the evaluations in Exhibit 1 consistent with the revised job descriptions? What major differences in the jobs of salesmen and those of other employees affect the applicability of evaluation procedures in this situation?

78. LORING PRODUCTS COMPANY. Selection and Training of Salesmen

The Loring Products Company, located in a large eastern city, manufactured building maintenance materials which were distributed throughout the eastern part of the United States and Canada. For a period of 15 years prior to 1951, executives of the company had given considerable attention to the hiring and training procedure used in the employment of salesmen. Originally, prevailing practices had led to the hiring of many men unsuited to the work and the rate of turnover had been extremely high. Faulty

selection hampered attempts to train men and improve the quality of field representation generally and caused a waste of the money expended in training and supervising men who later proved incompetent.

During the six-year period when experimentation in selection and training procedure was carried on, considerable improvement was noted; but the executives nevertheless viewed research and improvement of method as a continuing necessity. In particular, during this period effort was devoted to increasing the reliability of the "Loring" test, a psychological test developed solely for use in selecting the company's own salesmen. As the number of men subjected to the procedure grew larger and more experience was obtained, other improvements were made. Analysis of the sales manager's reports which were submitted on causes of failure for men dismissed often suggested criteria for judging which had been omitted in earlier selection procedure. In addition, sales and personnel executives constantly checked the records of successful men to determine those items in the selection procedure in which they had high or low ratings. The executives were not hopeful of finding any ultimate method which would prove uniformly satisfactory but were anxious to change the procedure as faults were revealed and improvements were suggested. Within the past two years Strong's Vocational Interest test and Bernreuter's Personality Inventory test had been added experimentally to the selection procedure. A preliminary validation study showed that the Bernreuter scores were not predictive of success, while the Strong and Loring test scores showed some positive correlation with later performance.

The Loring Products Company manufactured a complete line of industrial and commercial building maintenance materials. Mastic floor and roof coatings, special-purpose paints and protective coatings of other kinds were the principal items in the line. Customers included industrial plants, institutions, such as schools and hospitals, office buildings, mines, and other commercial structures. Purchases for maintenance purposes accounted for 75% of sales, and original construction for the remainder. A factory staff was employed in product research so that needs for waterproofing, weather resistance, and equipment protection could be met more effectively. Research was also carried on to develop products for particular applications requested by customers when no standard products satisfied requirements. By 1942 a number of specialized products for particular uses which were superior to competing articles had been developed, and the entire line was believed to be as acceptable as that of any manufacturer in the industry.

Sales were made directly to superintendents, managers, or owners of industrial or commercial properties through an organization of 65 salesmen trained in the proper application and use of Loring products. The company used no jobbers or retail outlets. Salesmen were instructed in the maintenance of floors and roofs; how to achieve maximum protection and desired ap-

pearance in the treatment of interior walls; how equipment and exterior surfaces could be protected; how waterproofing problems should be approached; and how problems of use in new construction should be solved. A sales manager with three assistant sales managers directed the activities of salesmen. The sales manager spent about 50% of his time in the field conferring with the assistants and personally supervising the sales work. Assistant managers devoted their entire time to field work and did a certain amount of direct selling. A principal objective of the sales organization was to create such confidence among customers that all maintenance problems would be referred to Loring company salesmen and their recommendations would be accepted.

When the Loring Products Company was formed in 1927, the energies of the founders had been directed mainly toward creating a satisfactory product line. Over a period of years the executives realized it was equally important to train salesmen to become more than product sellers: it was desirable that they acquire the status of "building maintenance engineers." Attainment of this goal had been made difficult, however, by conditions existing in the industry. Sales fluctuated drastically between winter and summer months, with a very high proportion of annual volume falling between March and October of each year. Inasmuch as there was not enough maintenance business to keep their sales organizations occupied the year around, most companies had adopted the practice of hiring a large group of men each spring, knowing that the majority would quit or be dismissed at the end of the selling season. The experience at the Loring company was typical of most firms in the industry, and prior to 1936 approximately four out of five men hired did not remain a second year. Such conditions made training on any intensive scale extremely difficult. Despite active effort to develop salesmen through personal supervision, factory training schools, and staff conferences, the continuing high turnover indicated a fundamental weakness in procedure. In 1936, therefore, it was decided to experiment with new methods of employment.

The first attempt in this direction was an investigation of employment methods utilized in other industries to determine whether or not they would be applicable to the building maintenance products business. After considerable research by company sales executives, a group of tests including questions indicating intelligence, mental alertness, constructive observation, thoroughness, imagination, and adaptability was prepared. The tests were given to the company's entire field organization in 1936. However, no correlation between test scores and the sales ability of the men could be established. This approach was therefore abandoned.

It was next decided to employ an outside consultant to devise a test that would fit the particular qualifications of Loring company salesmen and who could assist in improving the entire hiring procedure. A thorough search

for the proper man culminated in the company's retaining a psychologist on a part-time basis. The president believed that no immediate results could be expected from this action because, before constructive suggestions could be offered, the consultant would require some time in which to become familiar with the business. Moreover, a certain amount of resistance from the staff was expected to retard the wholehearted adoption of recommendations until the consultant gained the confidence of men in the organization. In order to overcome resistance as rapidly as possible, the consultant studied salesmen performing their selling activities, accompanied assistant managers when they were employing and training men, attended group sales conferences, and held many discussions with assistant sales managers and company executives. Two years was the period tentatively determined as necessary to achieve the first tangible results.

In approaching the task, the company desired to discover some measurement for job success. The most likely yardstick—the amount of sales—was discarded because it was believed that many outside factors influenced sales volume. Territorial differences, length of time in which work had been done, the amount of advertising conducted locally, all had an important bearing upon the volume of sales developed by both good and poor salesmen. A study of salesmen who had been with Loring for more than two years and an investigation of several performance measures indicated that the annual commission earnings was the best single yardstick. During this investigation, the company learned that the number of years a salesman worked did not affect his annual earnings significantly; that on the average the salesmen who sold the largest orders were not the most successful; and that among older salesmen those who made fewer calls tended to be the more successful. It was believed that these collateral findings would be useful in training men who were starting to work for the company.

The next major job undertaken was to determine the characteristics which were desirable in Loring salesmen. Although for many years the company had collected personal history information during employment interviews, prior to 1936 no systematic use had been made of it. The form used up to that time had contained 31 items to be answered. Of the salesmen who had been with the company for at least two years, 48 were rated as to job success, and each of the 31 items was compared with the man's later success. The study proved that 6 of the 31 items could not be scored objectively, that 12 appeared to have no correlation with success or failure, and that the remaining 13 seemed to have promise. The application blank was then reprinted, omitting all but the following 13 valid items:[1]

[1] Subsequently, as a result of experimentation with questions on the application blank, the company discovered 12 additional valid personal history items. In November, 1942, the 12 items had been included in a new blank making a total of 25 questions in all. Additions were: present health, weight, number of days lost by illness, length of time

Age: Men under 40 when employed were most likely to be successful; those between 40 and 44 the least.

Height: Tall men seemed to have the better chance to be rated successful.

Marital Status: Married men were usually more successful than single or divorced men.

Number of Dependents: Those having one dependent were best; two next, while those with 3 or none were less likely.

Number of Thousands of Life Insurance: Those with less than $5,000 were less favorable.

Debts: Some current debt was favorable. None or more than $500 was unfavorable.

Years of Education: Success for persons who had completed the 8th grade, high school, or college was about uniform. Definitely less were those who had interrupted their education at other than these points.

Number of Clubs and Organizations: None to two was more favorable than three or more.

Years on Last Job: Up to ten years, the longer, the more favorable. Over ten years, less favorable.

Experience in Building Maintenance Line: Experience better than none, but amount not important.

Average Number of Years on all Previous Jobs: Up to ten years, a greater average length more favorable.

Average Monthly Earnings on Last Job: Those in the $200–$250 group were best, and between $250 and $350 were poorest.

Reasons for Leaving Last Job: Men still employed were the most likely; those unemployed because of circumstances beyond their control were next. Men who had left because of friction or mistreatment were definitely poorer risks.

Investigation was next focused on the *qualities* which differentiated successful from unsuccessful salesmen. By spending time in the field observing men on their jobs, and by analyzing the reasons for outstanding successes and failures in individual cases, the consultant was able to observe which qualities were possessed to a high degree by capable men. However, it was not easy to develop a method for judging applicants as to their possession of these characteristics. Although it was recognized that factual material would be useful as an indicator, principal reliance would have to be placed on the man interviewing the applicant. A careful outline for an interview was devised which contained 140 suggested questions covering eight principal areas of investigation. Interviews were to begin with the subject of job experience, then proceed to educational history, early family background, and attitudes developed in the home toward money, work, and

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married, minimum living expenses, other income, regularity of last job, number of years selling experience, how long a change of work contemplated, had you planned on Loring product line, what appeals most about proposed work.

Executives were of the opinion that enlarging the personal history record made the resulting score much more reliable.

discipline. Lastly, the present domestic and financial situation of the man and his attitude toward the Loring work proposition was questioned. The planned interview differed from the customary employment interview in that it thoroughly covered early childhood and elementary school habits, training, and relationships. The executives and the consultant felt that an applicant was more likely to reveal true qualities when talking about such matters than in discussing recent job experience, about which he was on guard. The interviewer was furnished an Interview Rating Form containing the following list of qualifications and was expected to form an opinion as to the applicant's possession or lack of each qualification. During the interview a rating of excellent, good, average, poor, or very poor was assigned.

(1) Capacity for day-after-day plugging.
(2) Money-minded, order-conscious.
(3) Capacity for social adjustment.
(4) Emotional adjustment; freedom from neurotic symptoms.
(5) Capacity for intelligent planning.
(6) Practical maintenance sense.
(7) Capable of accepting Loring philosophy of business. A sound builder.
(8) Singleness of purpose in life.
(9) Financial position.
(10) Physical vitality.
(11) Articulation.
(12) Can the applicant be supervised?

Neither the personal history record nor the interview revealed fully how an applicant would react to situations with which he was likely to be confronted later on in his work. The tests of intelligence given previously by the company had not proved significant either, so a new test, called the Loring test, was developed especially for use in the company's own hiring procedure. The consultant viewed tests as work or experience samples designed to reveal a man's probable performance under given conditions. Therefore, the new test was divided into three parts: part 1 presented difficult sales situations requiring an applicant's response; part 2 presented a series of maintenance problems verbally and pictorially; the third part consisted of arithmetic calculations of the cost of certain building repair work. In part 1, 19 situations were presented, each with 4 to 10 possible answers, from which the applicant was to choose the best. Point scores were developed for each alternative, the highest score being given to the most desirable one listed. An example of the questions asked was:

> The man you want to see about painting a display room says: "I can only see you for two minutes. I'm very busy today, and there are too many paint salesmen taking my time these days anyway." Would you (1) Try to make an appointment with him later; (2) Talk to him, using the two minutes to show

him an idea or two on paint that will save him some money, and then try for more time or a later appointment; (3) Tell him that you are only trying to help him, but if he can only give you two minutes, you might as well save your own time and call on some other prospects; (4) Ask to talk to someone else; or (5) Leave politely and hope to catch him in a better mood some day?

Part 2, on how to judge maintenance needs, was similar in form but posed a different type of question as follows:

> The principal reasons people buy interior wall paint are the following: (a) Improve sanitation; (b) Improve decorative appearance; (c) Protect the building from deterioration; (d) Improve the lighting inside of a building. Which of these reasons would you stress in selling interior wall paint to each of the following types of prospects? (Insert a, b, c, or d.) ( ) Hotel, ( ) School, ( ) Bakery, ( ) Plant manufacturing auto axles, ( ) Candy manufacturer, ( ) General offices of a manufacturer of radio tubes.

In addition, pictures of factory and commercial buildings were exhibited and applicants were asked to state what Loring products would be suitable subjects for sale to the owners. Part 3 tested an applicant's ability to compute material and labor costs given dimensions of various jobs and number of feet covered by different types of materials.

Executives stated that the Loring test had been given to a number of college men and to a group of experienced Loring salesmen. A reliable difference between the scores of the two groups had been observed. A follow-up study made in 1942 demonstrated that parts 1 and 3 of the test had some predictive value; part 2, containing problems referring specifically to building maintenance, was not valid because applicants with previous maintenance product experience had a great advantage over those without such experience. Part 2 of the test was, therefore, eliminated while parts 1 and 3 were scored and used in the selection procedure.

Executives viewed the procedure in use in November, 1942, as a series of successive hurdles to be overcome by prospective salesmen. There were 11 principal steps in the procedure described below, each of which was designed to reveal definite information about the applicant that the company had not previously secured. The hurdles did not end with employment of a man but continued through the first four months he was actually on the job.

1. The first hurdle was the prospect's telephone call or letter applying for an interview. Recruiting of men was accomplished principally in one of two ways: by circularizing customers in the area in which a new salesman was to work, and by advertising in newspapers in that area. Circular letters and advertisements stated specific qualifications desirable in applicants as determined by research, and replies from men not possessing these qualifications were discouraged. The sales manager or one of his three assistants who

answered the call or reviewed the letter eliminated others who were obviously unfit in the beginning. Following the call, a record of the impression made over the telephone by the applicant was made on an interview rating form. This record became a part of the man's permanent employment history.

2. If a man passed the first hurdle, he was invited for an interview with one of the sales managers. The interviewing sales manager had before him the outline of questions discussed above and an Interview Rating Form upon which he recorded his impressions of the applicant. This form contained the list of qualities, such as "Capacity for day-to-day plugging" and "money-mindedness," and the interviewer was to mark opposite each quality whether in his opinion the man was excellent, good, average, poor, or very poor.
3. If in the opinion of the interviewer the man warranted further investigation, he was asked to fill out a Personal History Record Form, and an appointment for a further interview one week later was made. The Personal History Record Form contained the items previously determined as having a bearing upon the probable success or failure of a man as a Loring salesman. Between the first and second interviews, the form was scored according to a formula of the company with the highest scores given to the most desirable characteristics which had been correlated with job success. During this interval, the interviewer also obtained a Retail Credit Report on the applicant's honesty and reliability.
4. At the second interview, another Interview Rating Form was completed to record additional impressions gained of the various qualifications. If the man had not been eliminated by this time, he was asked to take the Loring test previously described.
5. When appointments were made for the second interview, it was suggested that applicants plan to spend from 2 to 2½ hours so that there would be time enough to discuss the proposition thoroughly without feeling hurried. The forms used in connection with the Loring test were administered under carefully controlled conditions and without advance warning to applicants. Sales managers attempted to put the applicant at ease by minimizing the importance of the test so that no nervous tension would hamper the applicant when completing the questions. The directions to the applicant, after he was seated at the desk in a room removed from noise and interruptions, were:

Fill in your name and address.

In general, the test consists of a series of problems or questions, each one of which is followed by several possible answers. You are to indicate what you would do by checking *one* of these alternatives. CHECK ONLY ONE ANSWER FOR EACH QUESTION. In some cases there may be several rather desirable answers, but check only one as your choice.

The test has been constructed so that no one is expected to make a perfect score. So don't be disturbed by the fact that you may have to guess at some of the answers.

There is no time limit on the test, but we will make a record of your starting

and finishing time. You may write in now the starting time—which is exactly (sales manager will give applicant the time). As soon as you have finished, let me know. I will be in the other room. Both speed and accuracy will count toward your score. Therefore, if you cannot answer a question after spending a reasonable amount of time on it, go on to the next problem.

Before an applicant left, a third interview was arranged for a week or ten days later. During the intervening period the Loring test was scored, and references were investigated so that complete data were on hand for the final discussion.

6. At the third interview, the sales manager delved into questions which might have arisen as a result of former interviews, tests, or an investigation of references. Whenever possible, a different manager was selected to conduct the third discussion so that the judgment of more than one man might be obtained. If all objections were satisfactorily cleared up, the applicant was employed during this interview. A set of company manuals, booklets, and other literature was then given to him to provide information about the company product lines and selling methods which he was to absorb before starting work.
7. On reporting for duty, the salesman was called in to the factory for an intensive training school which lasted for one week. At this school a single product line, such as floor coverings or interior paints, was studied for one week. Salesmen learned how products were made, the special purposes for which they were best suited, proper methods of application, and how to compute costs on various jobs. Upon completion, salesmen were rated on a standard form, then returned to the field alone for one to three days. At the end of three days, they were joined by a sales manager who spent two days with each man making calls and analyzing the salesman's planning, approaches, and presentations.
8. The manager making the field contact filled out a report form grading the salesman in accordance with his observations.
9, 10, 11. Subsequent field contacts were made at lengthening intervals, depending upon the progress of the individual. When salesmen were thoroughly acquainted with their work or at the end of four months, the manager supervising each applicant completed an analysis of field training form for the sales manager in which he indicated his opinion of the man's future possibilities. If a salesman was rated a good risk at the end of four months, he was recommended for further training at two additional factory schools devoted to other product lines. Each school was followed by further field contacts until a man was believed capable of proceeding without such supervision or until he was finally adjudged unsatisfactory.

During the first few months that a salesman was with the Loring company, his earnings were expected to be low, and a drawing account was made available to him. No definite limit was set for the time during which payments might exceed earnings, and in a few instances, men had been

retained for as long as a year on such a basis. However, when executives were convinced that an applicant did not possess the ability to become a satisfactory Loring salesman, the applicant's drawing account was withdrawn, and the man usually resigned as a result.

When a man dropped out of the organization an Out Salesman Report was made out listing the causes of failure. At the next sales management conference, all reports were reviewed in an attempt to analyze the causes of failure. In discussing the causes, interviewers became more conscious of important factors and thus were better able to detect their presence in later interviews. The process also revealed new data which should be obtained in the Personal History Record Form or during one of the three interviews prior to an applicant's being employed.

Although the procedure gradually adopted since 1936 had materially reduced the rate of turnover among Loring field employees, in 1942 the company was continuing to hire approximately 25 new men each year. As an experiment, the Bernreuter Personality Inventory and the Strong Vocational Interest Blanks were given to all newly employed men when they attended their first factory training school. The Bernreuter test contained 125 questions which the applicant was supposed to answer with yes, no, or a question mark indicating that he was unable to say definitely. It had been developed by Mr. Robert G. Bernreuter and was designed to reveal the personality traits of an individual which would make him desirable for a particular type of work. Answers to questions were based on how the applicant believed he reacted in his relationships with others and in various situations requiring some decision on his part. Later the answers were tabulated and a score developed for major personality traits. The Strong Vocational Interest Blank attempted to measure whether or not an applicant would like the proposed type of work. In order to do this, the man's likes and dislikes of a variety of occupations, study subjects, and activities were recorded. An applicant was also asked to judge his own abilities along several lines and to indicate his estimate of his own character through a number of questions. Answers were then compared with answers of successful men in a given occupation to determine their similarity. The test in no way purported to be an intelligence examination, but enabled a comparison between the applicant's interests and those of men whose ability was already proved.

Although test records were being accumulated until such time as a sufficient number enabled a statistical evaluation of results, executives doubted the applicability of ready-made tests to their hiring procedure. They believed that such examinations had merit in choosing men for simple factory and office work but that selecting salesmen or executives required instruments and procedures specially adapted to the company's needs and situation.

Research in hiring procedure was viewed as a long-range program at the

Loring Products Company, and repeated studies were made to determine whether or not changes should be introduced in existing methods. During 1942 the consulting psychologist prepared a partial summarization of studies conducted in that year to be presented at the sales managers' conference. He reported that a score of 62 for the Personal History Record Form was considered critical, and doubt was expressed about employing salesmen with lower scores. The report indicated that a total of 110 men had been employed under present procedure and that their correlation of total scores and success ratings was .50, showing a tendency for a man's History scores to reflect his success as a salesman. Of the 110 men employed, 35% was moderately successful. Of men whose score was below the critical 62, only 20% was moderately successful, while of men above 62, 42% qualified in this group. The chances for success, therefore, were more than twice as good for men scoring above the critical score.

The Out Salesman Form was studied to determine whether the causes of failure as marked on this form would indicate necessary revisions in the Interview Rating Form. From the study it was found that the most frequently checked causes were: Emotional maladjustment, 11; Financial difficulties, 11; Lack of intelligent planning, 9; Lack of plugging, 7; Left voluntarily (including 3 to the Army), 7; Too many scattered interests, 5; Lack of money motivation, 4. The least important causes were shown as: Inability to get along with customers socially, 0; Lack of knowledge of Loring products and techniques, 0; Unable to take supervision, 1; Physical status, 2. In 11 cases, the weaknesses which caused the salesman's failure had been recognized and properly rated at the time of the interview by the particular sales manager. The men were employed, however, for a variety of reasons, even though these weaknesses were known. It was difficult to assign a proper weight to one weakness because men who later made outstanding successes invariably showed at least one weak trait at the time of employment.

During the four-year period from November, 1942, to November, 1946, Loring Products Company made several changes both in its sales supervisory organization and in the selection and hiring procedure which it had gradually developed since 1936. While organization changes were brought about by an increase in business activity and tentative plans for future expansion, those which pertained to methods employed by Loring in selecting salesmen were the result of additional experience gained in associating the performance made on various hiring tests with the degree of success attained in the selling job. The company's continuous search for a higher correlation between these two factors led to additional experimentation and research which executives believed had developed a more effective and successful hiring procedure. This procedure enabled management to employ men who

did not have the kind of working experience previously considered essential, but it did not and was not intended to eliminate the element of human judgment and evaluation which at one time had played a much larger part in the selection process.

Organizational Changes to Meet Future Requirements. By the fall of 1946 Loring's salesforce had increased from 65 to 80 men; at the same time five sales supervisors were interposed between the salesmen and the three assistant sales managers for the reason that control in the field had become too cumbersome for the latter to handle. Although present coverage included northeastern United States and Canada, plans called for eventual expansion to include the entire country, which according to the estimate made by the company president, would require a salesforce of 200 men. For this reason, management intended to continue the selection and training of field supervisors until it developed a corps large enough to do the job. If supervisors devoted one-half their time to selling and the other half to supervision, a condition which executives believed necessary for effective control, approximately 18 to 20 would be needed to handle a force of the predicted size. While the president had no doubts as to the soundness of the sales supervisor setup, he was not certain whether these men should report to the assistant sales managers who would become division managers or to a headquarters section in the home office. However, he was convinced that the supervisory system was the only one which would give a field manager the opportunity "to adjust his mind to changing conditions, not through a formalized educational program, but by allowing him to acquire the proper sales outlook subconsciously as he performed his job."

Measuring Job Success: 1946. In 1942, after considering several measuring sticks for top sales performance, company executives, on the advice of their consulting psychologist,[2] selected annual commission earnings as the fairest indication of job success. Since that time the matter of setting a yardstick for success was checked through a series of studies by the consultant. At the beginning of 1946, total sales volume, an alternative which had previously been rejected, was adopted as a new measuring stick for a two-year period because recent experience had shown this figure to bear a high degree of correlation with the success of salesmen employed during the preceding four-year period. Since the psychologist had discovered that this correlation appeared to be stable for a two-year period, his intention in the future was to check the yardstick every two years; however, by the end of 1946, total sales volume seemed to equal annual commission earnings as a valid measure of success. In determining the value of a particular measure,

[2] The consulting psychologist, who joined Loring on a part-time basis in 1942, accepted a full-time position with another firm in 1944 and was replaced by a colleague who had had several years of experience in testing and placement procedures.

the consultant considered only the older salesmen who had been with the company for over a year; the average period of service with the firm for those men to whom the yardstick was applied was five years. The reason for this procedure was the fact that new salesmen had been on the job too short a time to indicate whether or not they would become successful. Furthermore, in determining which measure of success should be adopted, the consultant sought the personal evaluation of both the general sales manager and the assistant sales managers.

The Personal History Record. The personal history blank, revised in November, 1942, to include 25 items, remained the same until January, 1946, when several major revisions were made. All questions included in the original form were kept intact as far as meaning was concerned, but improvements were made in several respects (Exhibit 1). A detailed breakdown of the applicant's educational history and previous job experience was incorporated to give a more complete record. The 25 items were renumbered and several were divided into different categories making a total of 46; many were also rearranged so as to eliminate possible chances for error in scoring. The first eight questions on the record were included for informational purposes and were consequently not scored. Three others were retained in the form because the consultant believed that the answers might be of some value to the sales manager; these were questions concerning the amount the applicant had "laid away for a rainy day," car ownership, and the length of time lived in the Loring territory in which the applicant planned to work.

During the war, Loring added a military supplement to the Personal History Record to allow managers to consider a man's service experiences in evaluating his potentialities as a salesman (Exhibit 2). At the same time a second supplementary blank was attached for the purpose of including items which the consultant might study from the standpoint of their correlation with job success. The objective was eventually to change the personal history record so as to keep the blank equipped with questions which had shown evidence of a high correlation with satisfactory selling performance. The company intended to check the record for accuracy at the same interval that it reviewed its yardstick of job success—about every two years. The consultant stated that the accuracy of the personal history record in the past supported it as an important part of the selection procedure.

In February, 1946, the critical score of the personal history record was changed, and at the same time the consultant devised a quick-scoring chart as an aid to the rapid evaluation of answers. Whereas the previous critical score below which executives deemed it advisable not to employ a man was set at 62, the changes resulted in a different weighting of the questions and a new critical score of 125. During the preceding three-year

Exhibit 1. Loring Products Company

Applicant's Personal History Record

Every business has its own peculiar requirements for success. We are trying to do a conscientious job of selecting only those men who, in the light of our careful analysis of the records of hundreds of other men, have a better than average chance of success in our line of business. We consider it unfair to ask a man to put his time, energy, and money into a business venture unless there is a definite probability of his success. Since our interests in this respect are identical with yours, we shall appreciate your thoughtful and accurate answers to the items below. This information will be considered confidential, and references will not be consulted until we have your permission. Please fill out this blank completely, leaving no questions unanswered.

1 NAME | 2 SOC SEC NO | 3 DATE

4 PRESENT ADDRESS | 5 PHONE NO

6 PERMANENT ADDRESS | 7 PHONE NO

8 DATE OF BIRTH (MONTH DAY YEAR) | 9 ARE YOU AT PRESENT REGULARLY EMPLOYED? | 10 IF NOT HOW LONG HAVE YOU BEEN UNEMPLOYED?

11 WHAT PHYSICAL DEFECTS HAVE YOU? | 12 PRESENT HEALTH ☐EXCELLENT ☐GOOD ☐FAIR ☐POOR

13 APPROXIMATE NUMBER OF DAYS LOST FROM WORK THROUGH ILLNESS IN LAST TWO YEARS? | 14 PRESENT AGE?

15 HEIGHT | 16 WEIGHT | 17 DO YOU OWN A CAR? | MAKE YEAR

18 SINGLE MARRIED WIDOWED SEPARATED DIVORCED? | 19 REMARRIED? | 20 IF SINGLE ARE YOU ENGAGED TO BE MARRIED?

21 IF MARRIED HOW LONG MARRIED? | 22 NUMBER OF CHILDREN? | 23 AGES OF SONS? AGES OF DAUGHTERS?

24 OTHER DEPENDENTS? | 25 DO YOU HAVE ANYTHING PUT AWAY FOR A RAINY DAY? (SAVINGS ACCOUNT, BONDS, INVESTMENTS) ☐YES ☐NO

26 LIST CLUBS ORGANIZATIONS LODGES OF WHICH YOU ARE A MEMBER?

27 AMOUNT OF LIFE INSURANCE ☐NONE | 28 MINIMUM MONTHLY LIVING EXPENSES OUTSIDE OF BUSINESS EXPENSES

29 AMOUNT OF DEBTS ☐NONE | CURRENT BILLS NOT ☐MORE THAN $500 | OVER $500, INCLUDING ☐MORTGAGE, CAR, ETC

30 HAVE YOU ANY OTHER INCOME BESIDES WHAT YOU WOULD EARN WITH US? ☐NONE ☐SMALL AMOUNT ☐CONSIDERABLE

31 YEARS ON PRESENT JOB OR ON LAST JOB IF NOT WORKING | 32 TOTAL NUMBER OF YEARS OF SELLING EXPERIENCE

33 NUMBER OF YEARS OF EXPERIENCE IN BUILDING SUPPLY CONSTRUCTION MAINTENANCE OR RELATED LINES? ☐NONE

34 TOTAL NUMBER OF PREVIOUS BUSINESS CONNECTIONS? | 35 OVER HOW MANY YEARS? | 36 AVERAGE LENGTH OF TIME ON ALL PREVIOUS JOBS?

37 AVERAGE MONTHLY EARNINGS ON YOUR LAST REGULAR JOB? | 38 DID YOU MAINTAIN REGULAR CONTACTS WITH YOUR CUSTOMERS ON THE LAST JOB?

39 REASON FOR LEAVING YOUR LAST POSITION? IF YOU ARE EMPLOYED AT PRESENT WHY ARE YOU INTERESTED IN LEAVING YOUR PRESENT CONNECTION?

40 HOW LONG HAVE YOU BEEN CONTEMPLATING MAKING A CHANGE OF EMPLOYMENT? | 41 HAD YOU DEFINITELY PLANNED SOME LINE LIKE ... OF

42 WHAT APPEALS TO YOU MOST ABOUT THE LORING PROPOSITION?

43 HOW LONG HAVE YOU LIVED IN THE TERRITORY IN WHICH YOU EXPECT TO LOCATE FOR LORING

PLEASE TURN TO REVERSE SIDE

period, experience had shown that the new scoring procedure revealed the following pattern of success:

134 and up	Good risk—80% succeeded
125–133. . .	Fair or marginal risk—53% succeeded
90–124. .	Failures—only 7% succeeded

While the custom previously had been to record the scores on the left side of the blank, the sales manager analyzing the results experienced some

Exhibit 1. Loring Products Company (*Continued*)

44. EDUCATION

NAME OF SCHOOL	LOCATION	No. of Years Completed	GRADUATED Yes — No	YEAR LEFT SCHOOL	COURSE PURSUED
GRADE					
HIGH					
COLLEGE					
OTHER EDUCATION					

45. EMPLOYMENT HISTORY

ACCOUNT FOR AT LEAST THE LAST TEN YEARS

LAST OR PRESENT EMPLOYER'S NAME — ADDRESS

EMPLOYED FROM — TO — NAME OF PERSON UNDER WHOM YOU WORKED — HIS TITLE

NATURE OF YOUR WORK — IF SELLING PRODUCTS SOLD

CLASS OF TRADE SOLICITED — NO. ACCOUNTS WORKED — AVERAGE MONTHLY EARNINGS $

REASON FOR LEAVING

NEXT PREVIOUS EMPLOYER'S NAME — ADDRESS

EMPLOYED FROM — TO — NAME OF PERSON UNDER WHOM YOU WORKED — HIS TITLE

NATURE OF YOUR WORK — IF SELLING PRODUCTS SOLD

CLASS OF TRADE SOLICITED — NO. ACCOUNTS WORKED — AVERAGE MONTHLY EARNINGS $

REASON FOR LEAVING

NEXT PREVIOUS EMPLOYER'S NAME — ADDRESS

EMPLOYED FROM — TO — NAME OF PERSON UNDER WHOM YOU WORKED — HIS TITLE

NATURE OF YOUR WORK — IF SELLING PRODUCTS SOLD

CLASS OF TRADE SOLICITED — NO. ACCOUNTS WORKED — AVERAGE MONTHLY EARNINGS $

REASON FOR LEAVING

46. OTHER POSITIONS

YEARS WORKED	TYPE OF WORK
1.	
2.	
3.	
4.	

IF YOU CARE TO LIST ANY REFERENCES, OTHER THAN THE EMPLOYERS ABOVE, DO SO HERE

NAME _____ ADDRESS _____

NAME _____ ADDRESS _____

difficulty getting a complete interpretation of the answers. The quick-scoring chart was designed to facilitate scoring and to make it possible to discover at a glance the low, average, and high responses of the applicant. Different weights were established for the various answers to each question; these were circled by the scorer and the total was then checked against the new critical score. For example, the weighting assigned the information contained in items 9 and 10 by the consultant is shown below:

Exhibit 2. LORING PRODUCTS COMPANY

PERSONAL HISTORY RECORD SUPPLEMENT

This supplement to the regular Personal History Record is designed to enable ex-servicemen to record their service experiences, so that we can use this information as a basis for judgments about selection and placement. Just as in the case of the Personal History Record, the information will be considered confidential.

1. Name _____ 2. Date _____

3. Grade or Rank	4. Branch or Nature of Service	5. Length of Service From: To:
6. Reason for Discharge		

RECORD OF MILITARY SERVICE AND EDUCATION

7. Military Duties

Approximate Dates From To	Principal Duty, Ship, or Station	Title	Rank

Service School	Course	Weeks

8. Service Education (General or Vocational)

School (U.S. Armed Forces Institute, Army Specialized Training Program, etc.)	Subject or Course	Course No.	Date Comp.

Response	*Score*
Employed, full time, regular..	7
Employed, part time	5
Unemployed, less than one month..	6
Unemployed, one month up to two	5
Unemployed, two months to four..	1
Unemployed, four months or more..	0

In inaugurating the new weighting scale and critical score, the company's consultant cautioned against too great a reliance on the results of the per-

sonal history record score in the selection process. He emphasized that the record was a tool for eliminating failures rather than for hiring successful salesmen and that it was not a substitute for the sales manager's judgment which was based on long experience. Since a high score was not a guarantee of success, he believed that those responsible for hiring should guard against allowing such a score to bias them too much in a man's favor and cause them to relax their usual critical judgment.

Interview Rating Form. The interview rating form originally devised by the consulting psychologist in 1942 contained approximately 140 suggested questions covering eight different topics intended to assist the interviewing executive in determining whether or not the applicant possessed those qualities which were related to a high degree of success on the job. In addition, the applicant was interviewed and rated on twelve different topics which executives and the consultant believed might give a better indication of the man's true qualities since they were designed to get him talking about his personal history and attitudes. In 1946 the detailed questions were omitted from the scoring sheet although the interviewers reviewed them to make sure the suggested subjects were fixed in their minds. The consultant believed that the interview would be conducted along more natural lines if the sales manager in question was not following a stereotyped interview pattern. Those concerned with selection and hiring, however, were constantly checking back over the old form to review the details under each question for only through a somewhat standardized approach could the company obtain similar information from the different interviewers. Exhibit 3 contains a description of the original scoring sheet, together with the revised version.

The Loring Test. The Loring test, which was developed for the company's own use to indicate the ability of an applicant to qualify as a salesman of building maintenance materials, was eliminated in 1943. According to company executives and the industrial consultant, there were two major objections to this test: (1) it failed to have the predictive value they anticipated, and (2) it was time-consuming in that 30 to 40 minutes were required to give it to the applicant, grade it, and complete an analysis. However, the principal reason for dropping it was the fact that little correlation was found between the test results and a satisfactory selling performance. It had been extremely difficult to administer not only because of the length of time required, but also because of the tendency for tests to pile up at a time when many men were being interviewed. For this reason, graders could not complete them quickly and during a period when many new salesmen were needed, test results were not forthcoming in time.

In its place the company consultant devised two tests; one, a Loring Measurement of Sales Interest test combining many aspects of the Strong Vocational Blank and Bernreuter Personality Inventory, and the other a

Salesman Classification test which was prepared in conjunction with colleagues at a local university. The first contained not only those questions which had proved to have a high degree of correlation with top sales performance, but also included some which the consultant put in to disguise the others. Items which differentiated between the more and less successful salesmen were used, and the extent to which these test items were found to differentiate between the two types of salesmen determined the weight assigned to each. The accumulated score was thus intended to serve as a measure of an applicant's interest in being a Loring salesman. As a basis for forming these questions, the consultant used information in his files covering salesmen presently employed, salesmen who had left the company, and nonsales personnel in the organization who had never been in selling positions. He found the resulting test successfully differentiated between both present salesmen who were successful and those who were not and sales and nonsales personnel.[3]

[3] Following is a comparison of the scores made by present salesmen, past salesmen, and nonsales personnel on the Loring Measurement of Sales Interest Test:

Part I test scores	Present salesmen	Past salesmen	Non-salesmen
271–278	xx		
263–270	xxxxxx		
255–262	xxxxxxx	xx	
247–254	xx	x	
239–246	xxxx	xxx	x
231–238	xx	xx	xx
223–230	xxxx	xxxxxx	x
215–222	xxxx	xxxxx	xx
207–214	x	xxx	xx
199–198			xxxxx
183–190	xxxx	x	xxx
175–182	xxx		xx
167–174	xxx		
159–166			x
151–158	x		
142–150	x		

Because the first check on the results of this test showed the findings of Part I to be more stable than those of Parts II and III, critical scores were judged separately:

PART I. INTEREST TEST

Score Range	*Recommendation*
255 and up	Favorable—100% in upper ⅔ on total sales
215–254	Questionable—50% in upper ⅔ on total sales
214 and below	Unfavorable –100% in lower ⅔ on total sales

PART II PLUS PART III. PERSONALITY TEST

Score Range	*Recommendation*
135 and up	Favorable—100% in upper ⅔ on total sales
111–134	Questionable—100% in lower ⅔ on total sales
110 and below	Unfavorable—67% in lower ⅓ on total sales

Exhibit 3. LORING PRODUCTS COMPANY. Outline for Interviewing Loring Salesmen

WORK HISTORY: BEGIN WITH HIS LAST JOB AND WORK BACK TO THE SCHOOL YEARS

Items to check about his history:

Any jobs related to Loring selling? Any mechanical? Any analytical? Call on building maintenance or construction men? How long on each job? (stability). Any creative selling? Reasons for leaving each job. (Friction, Dismissals, Good judgment?) Which job liked best. (Interest and enthusiasm about jobs.) Any strong loyalty or attachment to any employer? Approximate earnings on each job. Was last job a step upwards? Is he ambitious? (Is he on the way up or down? Past his peak?) Many wide shifts in type of work? Any shift in major life ambition? Has he tried any wild impractical projects?

EDUCATIONAL HISTORY (LEAD INTO THIS FROM HIS FIRST JOB HELD)

College attended:

Major subject studied. Which liked best? Which disliked most? Any difficulties with any subjects? In general, preference for Sciences, Math vs. English, Social studies, etc. (Interest in practical or theoretical and artistic.) Extracurricular activities. Sports. Dramatics. Fraternity. Social. Offices held. In general, were you about an average student, little below, or above average? Did you work your way through college?

High school (same line of questions):

Was this in your home town? Living with parents then? (This makes natural bridge to topic of family background.)

FAMILY BACKGROUND

Are your parents still living in Do you have brothers and sisters? (Get order of birth. Differences in age of those next to him.) Father's occupation? Mother's occupation if any? What sort of person was your father? How would you describe him? (Note affection or lack of it in way he tells about him.) What sort of person was your mother? Were you closer to your mother or to your father? (or neither), Occupations of brothers and sisters who are working? How successful is each? (Look for competition for our applicant.) To which one were you closest? (Whom did he love or hate? With whom did he compete? Was it unfriendly or unfair competition?) (Act interested in his family so that he will "loosen up.") (Did he have a place of special importance in the family circle, as favorite or black-sheep?) Was your family a close group, or just a lot of individuals living together? Was there much conflict? Did F. and M. get along all right? (Look for signs of extreme dependence on family, or strong resentments and conflicts.) Were you closer to your father and brothers, or to the women of the family? In general, do you prefer to deal with men or women?

WORK, MONEY AND DISCIPLINE IN THE HOME

Were your parents pretty strict about discipline, or easy-going? (Best if discipline is firm but fair and dependable. Not pampered.) Was your home run on schedule and with some regularity, or easy-going? Did you have some regular chores or jobs around the home, as a boy? (Was he taught work habits and work attitudes?) Were you held responsible for these jobs? Any jobs outside of the

home—as paper route, lawns, help at a store. (Was he independent of family, on his own, get his own jobs?) How did you get your spending money? On an allowance? Or paid for jobs? Did you have a savings account as a boy? (Save for bicycle or something? Learn value of $. Was he encouraged to accumulate?) Was money stressed a lot in your home? Or was it in the background? Was there a family budget? Was money given to you freely? Did you have life insurance as a boy?

PRESENT DOMESTIC AND ECONOMIC SITUATION

Married? Children? Any other dependents or relatives living with you? Ages, sex, schooling of children. (Note enthusiasm or lack of it in talking about family.) Wife working? Any other source of income? What is wife's attitude toward Loring proposition? (Are her ideas important to him? Is he too dependent on her?) (Any sign of friction? Is wife a positive force in his life?) Own your home, or rent? Mortgage? Any other large debts? (Any financial pressure?) Have current bills at stores? (Does he have credit?) Life insurance? Very heavy loans against it? (Is there cushion here?) Savings account now? Any reserve? Could you finance yourself for 6 weeks or so while getting started? (Will living standard need to be adjusted?) What is your principal need for money at present? Or is it a secondary matter? (Is money related to incidental or primary life aims?) What are your principal hobbies or interests? (Is his life centered around the trivial and immediate—as sports, good times, getting a job—or around getting ahead, building future? Do you belong to many clubs? (Not too many scattered interests is better.) (Does he appear to be emotionally upset at present for any reason?) Is your health entirely satisfactory? You have a home, family, fair income, etc., now, what else do you want? What are you working toward?

INTENSIVE STUDY OF 1 OR 2 RECENT JOBS, PREFERABLY RELATED TO LORING JOB

Just what type of product were you handling for company? (Does he know his line?) Describe a typical day's work on that job. Just what did you do? How did you find your prospects? (Did he comb?) About how many calls a day? How long a day did you have to put in to make that many calls? (Work regular hours? Early and late?) What type sales approach did you use? ("Canned" talk, or plan each approach, or trust to luck.) How did you handle objections? Zone his territory? Plan your day's work? Was it written out? How heavy were expenses? (Can he manage budget?) Keep any personal record system? (Of customers, orders? Systematic?) Have you any testimonials or records of your sales or earnings? (Was story told enthusiastically or matter-of-fact manner?) (Did he stress money earned or sales, rather than contracts, number of friends, quality of products, etc.?)

REACTION TO THE LORING PROPOSITION

What is your general reaction to our proposition? What appeals to you particularly about it? (Making money. Quality product and company. Advancement. Training program. Security.) Do you have any questions you want to ask about our proposition? What do you think is likely to be your chief difficulty or handicap with Loring? (Is his thinking realistic, hard-headed, planful, sound, or is it wishful, emotional, over-enthusiastic, weak, confused?)

NOTICE ALSO

Physical appearance. (Tall, vigorous, not too artistic.) Vitality and energy output. Business-like in the interview? Articulation. Well-organized and clear speech. Any obnoxious manners. (Egotistic, indecisive, self-critical and apologetic.)

[*Continued on next page.*

Exhibit 3 (*Continued*). Original Rating Chart for Loring Salesmen

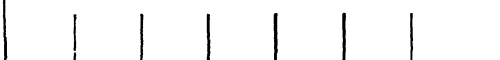
	Excell	Good	Average	Poor	Very Poor
1. CAPACITY FOR DAY-AFTER-DAY PLUGGING					
Reminders: ☐ On previous jobs did he work regular hours; make 8–10 calls a day; dig up his own prospects; work on his own without supervision? ☐ Did he change jobs frequently or stick it out? Does the darker side of our proposition make him hesitate? Does he have courage, "guts"? ☐ In the interview, was he business-like, direct, aggressive, decisive? Was he prompt? Did he have other things planned for the day? ☐ As a boy, was he trained in regular work habits; given jobs and held responsible for them; earn his own money? Was home discipline firm, regular, dependable, but fair? Did he shift for himself a great deal; get his own jobs?					
2. MONEY-MINDED, ORDER-CONSCIOUS					
Reminders: ☐ In talking about his selling experience did he stress the amount of money he earned, rather than the fine company or product or contacts? Did he measure his success in terms of earnings? Most interested in money? ☐ Does he have records or other proof of ability to "close" business? ☐ Did he carefully check into the money-making potentialities of our job? Does he prefer to work on commission rather than salary? Did he try to close the deal with you? ☐ As a boy, was he taught to earn and accumulate money? Or was money given so freely that it did not mean much to him? Did he save to buy something he wanted badly? ☐ Was money emphasized in his home by his parents, either because of saving, financial stringency, or to buy things? ☐ Is his present situation such as to make him want money strongly—as for family needs to prove his worth to himself, do as well as a brother? ☐ Is he ambitious to improve his status? Does job record show that changes were made principally to increase earnings?					
3. CAPACITY FOR SOCIAL AND EMOTIONAL ADJUSTMENT					
Reminders: ☐ Is he physically impressive—in height, weight, unique manner? Physical handicaps or peculiarities often cause defensiveness. ☐ Is he interested in people, likable, friendly? ☐ Does he generate enthusiasm, optimism, confidence, self-reliance?					

- ☐ Is he on the up-grade occupationally, or past his peak?
- ☐ Is there any indication of friction with past employers? Any strong sense of loyalty to some employer? Was he fairly treated, or does he blame others for difficulties? Has he been out of work long enough to be "soured" on the world?
- ☐ In high school, was he taken into clubs? Was he elected to offices?
- ☐ Did he like his father and brothers (perhaps more than mother)? Does he want to be like them in occupation (or like mother)?
- ☐ Was his family relationship friendly and cooperative, or was there conflict, insecurity, lack of love, antagonism in the background? Was competition with brothers (or sisters) too bitter, unfair, discouraging? Was home discipline firm but fair—with neither pampering nor autocratic domination by anyone in the family?
- ☐ Is he happily married? Interested in children? Is his home-life a positive force in his life, rather than neutral or negative?
- ☐ Does he want to lean on someone emotionally (parents, wife, on you)? Will he lean on Loring, on you, on quality products, for security? Is he "tough" emotionally? Can he "take it"? Make his own decisions?
- ☐ Should not show defensiveness in his attitude; want to prove that he was right; monopolize the conversation; be too "cocky" in his manner; be extremely egotistic rather than merely self-confident; brag about his conquests over people with whom he had differences.
- ☐ Should not be self-critical, apologetic, or feel inferior. Does he feel like a failure because his standards are too high?
- ☐ Is he emotionally upset at the present time for any reason—as debts, illness, doubts about his own ability, domestic conflicts, etc.?

4. CAPACITY FOR INTELLIGENT PLANNING

Reminders:

- ☐ On previous jobs did he zone his territory; plan each day's work; plan sales approaches rather than trust to luck and his personality; keep his own records and customers file; go about the job systematically?
- ☐ Has he sold creatively; adapt sales argument to each buyer's needs; no "canned" sales talk on one specialty.
- ☐ Will he be willing to learn, follow our methods, take suggestions? Is he interested in our training school, or does he think he knows all about our business? Is he too old to want to change?
- ☐ Is he intellectually able to learn? Does he know his last line thoroughly? In high school were his grades average or better? Did he grasp on?
- ☐ Is he a calculating, scheming, long-headed person who likes to figure things out in advance and work by a plan? He need not be a brilliant or rapid thinker, nor a broadly educated person; but he should show the ability to get at the crux of his problems—and be realistic.



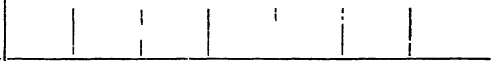
[*Continued on next page.*

Exhibit 3. Original Rating Chart for Loring Salesmen (*Continued*)

	Excell	Good	Average	Poor	Very Poor
5. PRACTICAL MAINTENANCE SENSE					
Reminders: ☐ Has he had experience in selling to maintenance men? Does he understand the practical (rough-and-ready) point of view of these men? ☐ Has he had practical experience in the building and maintenance field? Has he sold a mechanical product? Has he worked as a mechanic? ☐ Has he had engineering or technical trade courses in school? Did he prefer mathematics and science to English, dramatics, social studies? ☐ In the interview, was he especially interested in Loring methods of application? Was he interested in practical rather than abstract and theoretical phases of our work? Is he more interested in HOW to do a job than in its beauty? ☐ Do his hands (and general physique) suggest mechanical aptitude rather than a delicate, artistic make-up? ☐ Which of his previous jobs did he like best, and why? Was it mechanical?					
6. SINGLENESS OF PURPOSE IN LIFE					
Reminders: ☐ Should not have too many scattered ambitions, hobbies, interests ☐ Work history should not show many widely different types of jobs, especially if this indicates complete shifts of life objectives and ambitions. Have jobs been taken with a definite purpose in mind? ☐ In his attitude toward Loring, did he get over-enthusiastic on the first interview without careful consideration? Is he suggestible; easily led by you, or does he check everything against his own life purposes? Does he have good reasons for thinking this is just the job he wants? Is his wife "sold"? ☐ Do his principal interests center around the trivial and immediate (as getting any job, going to ball game, vacation, etc.), or around getting ahead? Does he know what he wants? ☐ Is his thinking hard-headed, realistic, in line with long-range objectives—or is it wishful, confused? Did he pick out the most important things in the interview, or get off on trivial points? Did he see possible handicaps for himself with Loring? ☐ In the interview, did he show broad cultural and academic interests which might confuse him? Did he get off on tangents; show a flighty intellectual curiosity about everything and anything?					

☐ Are most of his plans and ambitions centered around making money? Is money necessary (in his mind) to get what he wants out of life?

7. FINANCIAL POSITION



Reminders:

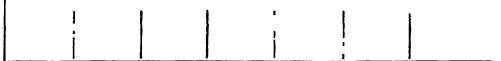
☐ Is he on the way up rather than on the down-grade in income? Should preferably have increased his earnings to about $200–$250 a month. Earnings of $350 or more will mean readjustment in living.

☐ Does he have some financial cushion—as savings, insurance, relatives? Should have at least $5,000 to $10,000 insurance. Can he finance himself while getting started with us; continue his present standard of living?

☐ Does he have good credit? (Some current bills, but no large debts.)

☐ On previous jobs did he keep control of his expenses?

8. PHYSICAL VITALITY



Reminders:

☐ Does he impress you as having a surplus of physical energy? Did he spend a lot of energy? Is he vigorous, active, not sluggish?

☐ Age should preferably be under 40 years. Older men should have vitality as well as good reason for making a change late in life.

☐ Is he physically large and impressive? If he is small in height or weight he should make up for this in energy and health.

☐ Health is an advantage, although a person may be energetic in spite of poor health.

9. ARTICULATION

Reminders:

☐ Does he express his ideas clearly and easily? His speech need not be polished or grammatically perfect, but his thought should be clearly and easily understood.

☐ Is he interesting to listen to? Is he enthusiastic about what he says? Did he take part in the interview or remain silent?

☐ Is his thinking organized? Does he plan what he wants to say? Does he speak to-the-point without wandering? Is he orderly?

☐ His voice should be at least satisfactory enough not to detract from his ideas.

Exhibit 3 (*Continued*). Revised Rating Scale for Loring Salesmen

	Excell	Good	Average	Poor	Very Poor
1. CAPACITY FOR DAY-AFTER-DAY PLUGGING					
2. MONEY-MINDED, ORDER-CONSCIOUS					
3. CAPACITY FOR SOCIAL ADJUSTMENT					
4. EMOTIONAL ADJUSTMENT—FREEDOM FROM NEUROTIC SYMPTOMS					
5. CAPACITY FOR INTELLIGENT PLANNING					
6. PRACTICAL MAINTENANCE SENSE					

7. CAPABLE OF ACCEPTING OUR PHILOSOPHY OF BUSINESS. A SOUND BUILDER.

Excell. Good Average Poor Very Poor

8. SINGLENESS OF PURPOSE IN LIFE

Excell Good Average Poor Very Poor

9. FINANCIAL POSITION

Excell Good Average Poor Very Poor

10. PHYSICAL VITALITY

Excell Good Average Poor Very Poor

11. ARTICULATION

Excell Good Average Poor Very Poor

12. CAN THE APPLICANT BE SUPERVISED?

Excell. Good Average Poor Very Poor

(Use Space Under Headings for Notes)

The Loring Measurement of Sales Interest Test, which placed no time limit on the prospective salesman, consisted of three parts containing a varying number of questions. The first part was on the order of the Strong Vocational Interest Blank and contained 167 different items having to do with occupations, activities, school subjects, and personal characteristics. The applicant was to circle one of three letters, L, I, or D, which followed each item depending on whether his reaction was one of liking, indifference, or disliking. The second part contained 88 questions similar to those found in the Bernreuter Personality Inventory while the third included 12 pairs of personal characteristics, these for the purpose of allowing the applicant to present an opinion of his own personal traits.

The Salesman Classification test was designed to measure adult intelligence which could not be measured by the sales interest test. It was made up of 100 questions [4] and tested the applicant's speed in thinking and native intelligence. There was a small positive correlation between the findings of this test and success on the job; however, company executives explained that they ascribed to it the same relative weight as to the interview rating form. For the purposes of collecting new data and checking their correlation with job success, the Strong, Bernreuter, and Bennet Mechanical Comprehension Tests were given although these were not graded or used as a basis for judgment in the selection of salesmen. Concerning the various research and experimental activities which Loring had conducted in the field of selection and hiring, the consultant emphasized that these had and would continue to take two forms: first, the constant checking of techniques already in use, and secondly, the searching for new information to improve those techniques.

The Degree to Which Loring Relied on Selection Tests: 1946. In a statement concerning the reliability of the selection tests thus far developed by Loring, the company's president explained that the firm had not yet reached the point where the correlation between test results and the ability of salesmen justified their use as the sole basis for selection. Of all the methods currently used, Loring relied mainly on the Personal History Record score, tempered with a consideration of the applicant's previous experience. Executives hoped eventually to devise a selection test on which they could depend as they did on the Personal History Record, but they believed the existing procedure had not been in use long enough to establish its validity, and in the meantime they intended to explore all avenues which might lead to the development of such a test. The part that the existing battery of tests played in the employment procedure by the end of 1946 was best set forth in a

[4] Following are typical questions given on the Salesman Classification Test.

1. A senile man is: (1) rich (2) old (3) wicked (4) strong
2. Water is a: (1) solvent (2) fuel (3) solid (4) food
3. An ambidextrous person is: (1) versatile (2) awkward (3) unhappy (4) ill

memorandum issued to the sales managers who were responsible for interviewing and selecting prospective salesmen.

> The tests play a definite part in employment, but they should in no way take the place of the procedures now in use. The two tests which are recommended for use in the employment procedure, the Salesman Classification Test and the Loring Measurement of Sales Interest Test, should be administered after the second interview to those applicants who look promising. If a man looks *exceptionally* promising and the conditions are such that it is convenient for the applicant to take the test, the test can be administered after the first interview although this is not generally recommended.
>
> The degree of correlation found in the validation of the Classification Test and the Loring Sales Interest Test justifies the conclusion that the scores obtained in these tests should be taken seriously into consideration, but that we should not rely upon them to the extent that we do on the Personal History Record score. If we continue to think of the various tests as hurdles, their value and use will become clearer. The Personal History Record is the first and chief hurdle. If the applicant falls below the critical score on this, he should be considered as not having gotten past that hurdle. If by discussion of the areas which contributed to his low score through the aid of the quick-scoring chart, he is believed worthy of further consideration, then the Classification and Sales Interest Test may be regarded as additional hurdles. If the applicant falls below the critical score on the Personal History Record and falls below the critical score on the Classification and Sales Interest Tests, the interviewer should seriously consider eliminating him. On the other hand, if the applicant scores between 125 and 134 and scored low on the Classification and Interest Tests, serious doubts should be raised as to his qualifications.
>
> In finally making selection, the interviewer must exercise his own judgment, taking into consideration all the factors revealed, including the impressions received as a result of the review of the applicant's work experience, as well as the applicant's rating on the Interview Rating Form, Personal History Record, and the tests, and of course, the information received from his previous employers.
>
> It should be recognized in the past, before we validated and were able to rely upon the tests which have been developed and before we had enough experience with them to place confidence in the test results, we have had to rely almost entirely upon the interviewer's judgment, based upon an analysis of the applicant's work experience, his personality, investigation of his references, etc. Now, however, we have progressed to the point where we are justified in a greater degree in employing men who have not had the kind of work experience which we have heretofore required as an essential qualification, provided by the use of these additional aids to judgment, we are able to come to the conclusion that the applicant is well qualified.

Although the company's selection record during 1946 had been remarkable in that 80% of the salesforce was retained, the president attributed this mainly

to the fact that business conditions had been favorable to success. Nevertheless, he believed this accomplishment significant in the light of the better ability of the interviewers to judge men and the favorable influence of a new compensation policy.

The president still regarded the field contacts with salesmen by the sales managers and supervisors as an important part of the development of a successful representative. These contacts were supplemented, generally twice a year, by training conferences which lasted one or two days and were held at the factory or other central meeting place which was convenient for all the salesmen. The general sales manager, in advance of the conference, would review those problems which he believed could best be dealt with through group discussions involving men who had had experience with them. He then selected salesmen whom he knew had encountered these problems and asked them to lead a discussion with the other men. At these meetings, the company's laboratory technicians and engineers had an opportunity to contribute whatever information they believed might be valuable to the salesman's training. The success of such a meeting, the president explained, was in direct relation to the leadership of the men directing it and the amount of time they devoted to its preparation.

Company Policy Regarding Beginning Compensation. Late in 1945, Loring liberalized its compensation policy and gave each new salesman a definite drawing account. However, the company's president explained that the firm took pains to see that this amount was less than a man would be satisfied to earn for a long period of time. He believed that this policy compelled a man to judge the proposition of working for Loring on its long-run merits; if a man was not satisfied with his progress soon after he started, he generally quit because of the relatively low starting salary. The president stated that the company was in position to follow this procedure because of its improved ability, obtained through constant testing and research, to pick and judge men.

Problem of Recruitment. The previous decade of selection and hiring experience had shown company officials that they could not find good prospective salesmen for the selling jobs they had at the time they needed them. When such men were found, executives were convinced that it was by chance or luck. Because of this situation, they were often forced to give the position to a man who was obviously not capable of doing the best possible job. Furthermore, they realized that good men, once established in a business situation, did not leave, and it was only on rare occasions that Loring managed to find one of these men who was not satisfied with his job. Assuming that Loring would be successful in the application of its new tests and new correlation procedures yet to be devised, the company nevertheless began to employ junior salesmen in 1946. These men were recruited primarily from colleges and were for the most part in their middle twenties. They were given

a detailed and formalized training in order to compensate for their lack of sales experience which senior salesmen, selected under the existing procedure, already possessed at the time of employment. Executives believed it too early to reach any conclusion concerning the success of this plan of recruiting, selecting, and training young men, but the president believed that, if this program was successful, the hiring of senior salesmen might be drastically curtailed or even completely discontinued.

By the spring of 1947, the Loring Products Company had stopped the employment of senior and experienced salesmen and was depending entirely upon junior men. In the past the company's policy had been to hire experienced salesmen who had the ability "to create a need in the client's mind." The company had developed an extensive selection program and process, but it appeared that the pool of man power from which the company liked to draw its men had diminished to so low a point that the company felt compelled to revise completely its selection process. By 1947 the company was depending exclusively on recent college graduates obtained by means of a college recruiting program. The executives believed that an intensive training program for these men was a necessary substitute for selling experience without which a man lacked self-confidence, allowing him to get discouraged easily and eventually quitting. In training the men, the company believed in giving them five months' inplant training, supplemented by a classroom course and occasional talks by senior salesmen. Subsequent to this training, 12 to 15 months' supervised field experience was found desirable. This was under the careful direction of a chosen senior salesman who was specifically trained for the job of developing younger men and who assumed the responsibility of checking on their progress.

In its college recruiting program, the company depended primarily on institutions in an area where a salesman's territory was open, so as to have men working in areas with which they were already acquainted and where the climate was agreeable. In looking for applicants, the company directed its attention to business administration majors as these men were thought most likely to be interested in sales. The procedure was as follows:

The recruiting representatives of the company went to the various colleges and made announcements and arrangements with the placement office directors to acquaint students with the forthcoming interviews. At the designated time, he returned to the college and held the interviews. In the event that an intelligence quotient score was not available the employer requested that the school give all applicants an intelligence test. A minimum 105–110 I.Q. was considered necessary for the man to qualify.

Upon completing the interview, if the employer believed the interviewee was a good potential candidate for the Loring Products Company an application blank was handed to him (Exhibit 4). This application blank was the Personal History Record, revised so as to take account of military and college

experience. After submitting this application blank to the company for further screening, the men were asked to come to Cleveland for interviews. As a rule men were given two interviews, the first with only one trained interviewer, and the second one with two. After each interview each interviewer completed an "Interview Rating Form" (Exhibit 5). These forms as well as notes made by the man in the field were then compared and studied by management. If then, there still appeared reason for interest in the man, the applicant was given the Loring company's salesman's classification test, the Bernreuter, and Guilford-Martin tests. The man usually spent two hours of testing before being hired and three hours after being hired.

In the various psychological tests given in 1950, the company was paying attention only to the salesmen's classification test as an aid in choosing among applicants. All other tests were designed to give data which were to be correlated in the future, approximately two years hence, when the salesmen's relative successes could be gauged. By that time it was hoped sufficient data would be available to make it possible to design a test which could be depended upon to screen out undesirable applicants.

In the fall of 1950, the company was requiring applicants to take the following tests:

1. *Salesman Classification Test.* A general intelligence type of test with some bias toward mechanical aptitude.
2. *The Bernreuter Test.* A test to bring out potential sales ability.
3. *Test of Mechanical Comprehension—Form AA* (Benult). A mechanical aptitude test.
4. *Vocational Interest Blank for Men* (Strong). A questionnaire designed to point up vocational interests.
5. *Guilford-Martin; Inventory of Factors G A M I N.* A personality test designed to point up—"General Pressure for Overactivity"; "Ascendency in Social Situations"; "Masculinity of Attitudes"; "Lack of Inferiority Feeling"; and "Lack of Nervous Tension."
6. *Guilford; Inventory of Factors S T D C R.* A personality test designed to show—"Social Introversion"; "Thinking Introversion"; "Depression"; "Cycloid Disposition" (Fluctuating or unstable); "Rhathymia" (Hilarious or Carefree).

The executives judged that it cost the company approximately $7,500 per man before a man was actually put into the field; but it regarded the new procedure as quite satisfactory inasmuch as the turnover rate was very low and almost all of it occurred in the early stages of employment.

In 1950, the executives believed that they had had a reasonably good method developed for selecting older men for sales positions. A great deal of emphasis had been placed upon the use of psychological tests with apparent success.

When, however, the company was faced with the problem of selecting

Exhibit 4. LORING PRODUCTS COMPANY

Applicant's Personal History Record

Every business has its own peculiar requirements for success. We are trying to do a conscientious job of selecting only those men who, in the light of our careful analysis of the records of hundreds of other men, have a better than average chance of success in our line of business. We consider it unfair to ask a man to put his time, energy, and money into a business venture unless there is a definite probability of his success. Since our interests in this respect are identical with yours, we shall appreciate your thoughtful and accurate answers to the items below. This information will be considered confidential, and references will not be consulted until we have your permission. Please fill out this blank completely, leaving no questions unanswered. A physical examination at the company's expense will be required before employment, unless satisfactory evidence of pre-physical examination is presented.

1 NAME IN FULL _____ 2 SOC SEC NO _____ 3 DATE _____

4 PRESENT ADDRESS _____ 5 PHONE NO _____
STREET CITY STATE

6 PERMANENT ADDRESS _____ 7 PHONE NO _____
STREET CITY STATE

8 DATE OF BIRTH _____ 9 AGE _____ 10 HEIGHT _____
MO DAY YEAR CITY STATE

11 WEIGHT _____ 12 ANY PHYSICAL DEFECTS _____

13 PRESENT HEALTH ___EXCELLENT ___GOOD ___FAIR ___POOR 14 APPROXIMATE NUMBER OF DAYS LOST FROM WORK THROUGH ILLNESS LAST YEAR _____

15 ARE YOU SINGLE MARRIED WIDOWED DIVORCED SEPARATED? _____ 16 IF SINGLE HAVE YOU PLANS FOR MARRIAGE? _____ 17 IF MARRIED HOW LONG? _____

18 NUMBER OF DEPENDENTS _____ 19 STATE RELATIONSHIP AND EXTENT OF DEPENDENCY (FULL OR PARTIAL) OF EACH _____

20 HAVE YOU A SAVINGS ACCOUNT AT PRESENT? _____ 21 AMOUNT OF LIFE INSURANCE $ _____ 22 ARE YOU IN DEBT? _____ 23 TO WHAT EXTENT APPROXIMATELY? _____

24 ESTIMATE YOUR MINIMUM MONTHLY LIVING EXPENSES WHILE IN TRAINING AT OUR FACTORY _____ 25 HAVE YOU ANY OTHER INCOME BESIDES WHAT YOU WOULD EARN WITH US? ___NONE ___SMALL AMOUNT ___CONSIDERABLE

26 DO YOU OWN A CAR? 27 MAKE 28 YEAR 29 AMOUNT STILL DUE ON IT? $ 30 DO YOU CARRY LIABILITY INSURANCE? 31 AMOUNT $

32 ARE YOU REGULARLY EMPLOYED NOW? 33 GIVE AVERAGE ANNUAL EARNINGS IN PAST EMPLOYMENT $

FAMILY HISTORY

34 FATHER'S NAME _____ 35 OCCUPATION _____

36 PRESENT ADDRESS _____ 37 YEARS OF SCHOOLING _____

38 MOTHER'S NAME _____ 39 OCCUPATION _____

40 PRESENT ADDRESS _____ 41 YEARS OF SCHOOLING _____

42 LIST BELOW BROTHERS AND SISTERS IN ORDER FROM OLDEST TO YOUNGEST GIVING THE SEX AGE AND OCCUPATION OF EACH (NAMES ARE NOT NECESSARY)

SEX	AGE	OCCUPATION

[Continued on next page.

Exhibit 4. LORING PRODUCTS COMPANY (*Continued*)

45. EDUCATIO

	NAME OF SCHOOL	ADDRESS OF SCHOOL
HIGH SCHOOL		
COLLEGE		
GRADUATE SCHOOL		
OTHER SPECIAL COURSES TAKEN		

44 WHAT PART OF YOUR EXPENSES DID YOU EARN WHILE ATTENDING HIGH SCHOOL? _____ NONE _____ PART _____ ALL

49 HOW WAS THIS EARNED? _____

_____

46 WHAT PART OF YOUR COLLEGE EXPENSES DID YOU EARN YOURSELF? _____ NONE _____ PART _____ ALL

47 HOW WAS THIS EARNED? _____

_____

48 HOW DID YOU SPEND YOUR COLLEGE SUMMER VACATIONS?

AFTER FRESHMAN YEAR _____

AFTER SOPHOMORE YEAR _____

AFTER JUNIOR YEAR _____

50. EMPLOYM

THIS RECORD SHOULD INCLUDE ALL POSITIONS HELD SINCE LEAVING SCHOOL PLEASE BE EXACT AS TO DATES GIVING M

DATES WORKED		EMPLOYER	STREET AND CITY ADDRESS
FROM	TO	GIVE FULL NAME OF COMPANY OR FIRM	

Exhibit 4. (*Continued*)

NAL HISTORY

DATES OF ATTENDANCE FROM MO. YR.	TO MO. YR.	COURSE TAKEN	DEGREE

49 STUDENT ACTIVITIES LIST THE CLUBS ORGANIZATIONS ACTIVITIES ATHLETIC TEAMS ETC OF WHICH YOU WERE A MEMBER OR OFFICER

HIGH SCHOOL

COLLEGE:

ENT HISTORY

ONTH AND YEAR YOU STARTED AND LEFT EACH POSITION PLEASE LIST FIRST JOB AT TOP AND CONTINUE TO PRESENT JOB.

KIND OF BUSINESS	NATURE OF YOUR WORK	PERSON UNDER WHOM YOU WORKED	FULL TIME OR PART TIME	AVERAGE WEEKLY EARNINGS

(OVER)

Exhibit 4. LORING PRODUCTS COMPANY (*Continued*)

81 WHAT EXPERIENCE HAVE YOU HAD IN BUILDING CONSTRUCTION MAINTENANCE OR RELATED LINES?

82 IF WE EMPLOY YOU WHAT WOULD BE YOUR PREFERENCE AS TO THE LOCATION OF YOUR ASSIGNMENT?

83 WHEN COULD YOU START WORK?

84 WHAT APPEALS TO YOU MOST ABOUT THE [redacted] ORGANIZATION?

88 WHAT INDUCED YOU TO BECOME INTERESTED IN AFFILIATING YOURSELF WITH THIS COMPANY?

86 GIVE THREE PERSONAL REFERENCES (NOT FORMER EMPLOYERS OR RELATIVES)

NAME	CITY AND STREET ADDRESS	BUSINESS OR OCCUPATION	HOW LONG HAS HE KNOWN YOU

87 PHOTOGRAPH MAY BE ATTACHED IF DESIRED

F 782-A 2M 1-49

Exhibit 5. Loring Products Company. Interview Rating Form

Name Source Date

Address Interviewer

	10 9	8 7	6 5	Remarks and Notes
Maturity—Physical	Impressive		Acceptable	
Dress				
Stature				
Speech				
Health				
Bearing				
Maturity—Emotional	10 9	8 7	6 5	
	Exceptionally well-adjusted		Should not be a problem	
Poise				
Self-Reliance				
Realistic				
Work Habits	10 9	8 7	6 5	
	Has clearly demonstrated excellent work habits		Should develop habits but not established now	
Serious and sincere about job				
Early job history Habits				
Work history has shown growth				
Had to work				
Supervisability—Trainability	10 9	8 7	6 5	
	Easy to supervise and train		Anticipate no problem	
Willingness to accept leadership				
Team Worker				
Grasp Understanding—Following instructions				
Sales Personality	10 9	8 7	6 5	
	Established sales aggression		May develop S P as he matures	
Organization of story				
Expresses himself clearly and easily				
Enthusiasm				
Social aggressiveness				
People like him				
Commands respect				
Aptitude for Maint Selling				

Exhibit 5. Loring Products Company (*Continued*)

Sales Interest	10 9	8 7	6 5	Remarks and Notes
	Will sell for someone		Is interested but not 100% sure	
Is sales his real interest?				
Soundness of reasons				
Evaluation previous selling				
Social and Emotional Adjustment	10 9	8 7	6 5	
	Stable, Objective, and Strong		May have personal problem	
Well rounded home life				
Marital relationship				
Relation to father				
Relation to mother				
Interested in people				
Gets along well with people				
Extracurricular activity				
Analysis of Motivation	10 9	8 7	6 5	
	Drive and persistence present		Ambition adequate	
Need to support dependents				
Drive—Persistence, ability to discipline self, make sacrifices to achieve long range objectives				
Anxious for opportunity for advancement				
Strong wish to make money				
Wish to marry				
	10 9	8 7	6 5	
	Stable, Objective, and Strong		May have personal problem	
Wish to prove abilities				
Other_____				
Enthused about training program				

Exhibit 5. (*Continued*)

For the following reasons recommended not employing:

For the following reasons candidate above average recommend employment:

For the following reasons there is some doubt about employment, but worthy of further consideration:

Positive Factors (Employ)	Negative Factors (Don't Employ)

men directly from colleges, these tests were no longer valid and useful and new ones had to be devised. It was with this objective in mind that the executives and the consulting psychologist were studying their selection procedure.

79. LINCOLN-MERCURY DIVISION, FORD MOTOR COMPANY. Sales Training

One of the most important problems facing the general sales manager of the Lincoln-Mercury Division of the Ford Motor Company in the summer of 1952 was how to improve the quality of salesmanship on the part of the 3,500 new car salesmen who worked for Lincoln-Mercury dealers.

Under conditions of a sellers' market, which had existed most of the time since late 1941, the automobile industry generally had acquired a reputation for poor salesmanship at the retail level. Selling had not been difficult enough to challenge the ingenuity of salesmen or to encourage most of them to improve the way in which they dealt with customers and prospects.

All automobile companies had received unsolicited letters of complaint on unsatisfactory treatment in dealer showrooms. An example, addressed to Lincoln-Mercury's general sales manager by a prospect who had received direct mail pieces on the Lincoln, is reproduced as Exhibit 1. Shopping surveys had provided similar evidence. Reports from two such studies of Lincoln-Mercury dealerships, conducted by district office personnel, showed that

Exhibit 1. LINCOLN-MERCURY DIVISION, FORD MOTOR COMPANY

July 1, 1952

J. E. Bayne,
6200 West Warren Avenue,
Detroit 32, Michigan.

Dear Mr. Bayne:

Your recent undated letter is the fourth selling piece (and a good one) to reach me since I first got the idea that I might like a Lincoln.

After talking with two of your owners, I went to your showroom where I was as completely ignored as I have ever been. Was there four minutes and was the only stranger in the room and the only prospect.

Later I received a most beautiful piece of literature which I read from cover to cover and read the covers. Found nothing that might indicate the difference between a Capri and a Cosmopolitan.

Returned to the showroom and took the literature and got some attention:—one man glowered at me about two seconds and went into an office and sat down at a desk and forgot me. Put the literature on a table and left.

Same story at another showroom where they display another make of car.

A Cadillac salesman came to my office with a catalog, color cards, samples of fabrics and an order pad.

This car is going to do me for several years. Am building a new house and will be low on funds for a long time. Before I buy another car, will look at several makes—Lincoln included —here or in some other town. Any belated annoyance by Lincoln "salesmen" at this time will lessen your chances the next time I buy.

My living is made by selling and I have a lot to learn. All of us who sell, need a lot of help. My contact with Lincoln (or lack of contact) has helped.

Since your job is selling I thought you might be interested in the above.

Sincerely,

only one out of 10 salesmen did an acceptable selling job. Competing salesforces were believed to be performing at about the same level.

The sellers' market continued for Lincoln-Mercury in 1952 when material allocations limited production. Major model changes introduced for both the Lincoln and the Mercury had met with an enthusiastic reception so that demand far exceeded supply. Nevertheless Lincoln-Mercury dealers had become concerned about improving their sales effort in anticipation of a return of conditions of stiff selling. At a meeting in June, they requested that a new sales training program be developed and made available to them for use with their salesforces.

In addition to training, Lincoln-Mercury executives were interested in attracting and keeping more high-caliber men as dealer salesmen. The company, along with other businesses, had experienced difficulty in obtaining college men for selling jobs, a problem which had been the subject of an article in an issue of *Fortune* (Exhibit 2). Some of the findings from this article later were used by the sales training director in support of plans for a motion picture which would be an important part of a program designed to encourage more college graduates to look upon the selling of automobiles as a desirable career.

The Dealer Organization. Lincoln-Mercury was set up as an independent division of the Ford Motor Company late in 1945, and almost all its dealer organization had been built since that time. Previously there had been few exclusive dealers for Lincoln and Mercury, the cars, for the most part, having been handled on the side by Ford dealers. By the summer of 1952, L-M had 1,737 dealers, ranging in size from one-man operations to large metropolitan dealerships with 20 to 30 salesmen. Of this total, 964 handled both the Lincoln and Mercury, 269 sold only the Mercury, and 504 were Ford dealers who also handled the Lincoln and/or the Mercury.

Contact with the dealers was maintained through five regional sales offices and 23 district sales offices. The latter had a number of district field managers, each of whom called on from 20 to 30 dealers. Ninety per cent of the 3,500 new car dealer salesmen had little selling experience in a buyers' market, and 75% had not sold cars before World War II. Some of the most successful salesmen were young men just out of school or just back from military service. A study of Lincoln-Mercury's top 100 salesmen showed that their ages ranged from 23 to 66 with the average at 36, considerably lower than it had been before the war. Most of the men in this group were married and had two children. Two-thirds had finished high school, one-fifth had graduated from college. They averaged less than 4 years of selling experience, although there were a few "old-timers" among them.

Turnover in dealer salesforces had run between 200% and 300% a year. Executives hoped that this could be reduced materially by home office efforts to attract better men and by more careful screening of applicants by dealers.

Exhibit 2. Lincoln-Mercury Division, Ford Motor Company

(The following is reproduced from a publicity release issued by *Fortune* magazine for use on or after May 2, 1952.)

SELLING OFFERS BIG MONEY—BUT COLLEGE SENIORS HOLD BACK

Fortune Reports on "Depreciation of U.S. Salesmanship": Public Fails to Understand Salesman's Essential Function in Introducing New Products

NEW YORK, May 2—Selling offers higher top pay than virtually any other occupation – yet college seniors don't want to become salesmen, *Fortune* magazine discloses today.

Fortune polled 86 college and university placement directors; executives of 65 corporations; and also a sample of middle-income mothers. Most of the women were dead set against having their sons sell for a living; colleges reported their students apathetic about selling; and most of the sales executives complained that too many salesmen "won't work; they're happy just servicing accounts."

Said one sales manager: "I shudder to think of how they're going to react when we hit a real buyers' market."

What has happened to the Great American Salesman?—He is becoming rare, *Fortune* reports (in the second of a series of articles on "Selling in Today's Economy"), but he is not yet extinct. There still are old-fashioned energetic salesmen making old-fashioned lush commissions—but more of them are working for small or medium corporations than for very large concerns.

Where Salesmen Make Money

When *Fortune* ranked salesmen's earnings in the 65 corporations, according to the size of the company, the emerging pattern so amazed the editors that the figures were ordered rechecked. But the figures still told the same story: "salesmen in the small corporations averaged half again as much in earnings as those who worked for large ones." Salesmen of the large concerns were primarily on a salary basis; those of the small ones on a commission basis.

Salesmen's performance followed the pay pattern:

> Those sales managers who appeared to have the least trouble getting high performance out of their salesmen were in most cases with medium or small corporations leaning heavily on commissions. Where sales managers were most dissatisfied with their men's performance, the company more often than not paid a relatively low average salary.

U.S. salesmanship has undergone a depreciation in the last twenty years, *Fortune* finds. Yet the salesman is not obsolete: Today he is all the more potent, and his talents are needed to "go to work on the low-saturation items, the new ideas, the unexploited opportunities, the missionary work—all the things, in short, that expand rather than merely service our economy."

Salesman's Value Underestimated

Salesmanship has depreciated for several reasons: one of them, the salesman's sinking prestige, *Fortune* continues:

> There is a tacit but deep-seated belief that the salesman performs no useful function. They do not see what *good* effect he causes; either he works only to wolf a larger cut for his firm of what would be bought anyway or, worse yet, sells things people don't need and at a price that mortgages their future.

Fortune asked 35 middle-income wives which career they would prefer for their sons: Real-estate man, insurance salesman, store owner, teacher, dentist, or bank officer? The two selling jobs—real estate and insurance—drew one vote apiece, and by far the most negative comment: "Salesmen are so dreadful" . . . "I've heard so many people say, Oh, Lord, I don't want to run into him—he's an insurance salesman," etc. When asked to choose between a low-paid selling job in a large corporation and a high-paid selling job in a small one, the women voted two to one for the large company: "Security is worth more than what he'd make in money—he'd go out and spend it right off anyway," said one.

"Salary Their Preoccupation"

College seniors are not impressed by the high rewards that selling promises:

> However large the income, its appeal is outweighed for them by what appears to be a fundamental prejudice.

According to the placement directors surveyed by *Fortune*, there has been little increase of interest in selling as a career among college men; some placement directors report a drop

Exhibit 2. (*Continued*)

since 1949, and those who report an increase frequently make the point that it is slight and due largely to the cold realities of the job market and the saturation in such preferred fields as personnel. And when seniors do aim at sales it is often with so many qualifications as to what *kind* of sales that it would seem questionable whether they want to sell at all.

What they don't want is abundantly clear. They do not want to be put on their own early in the game; they do not want to sell as a lone individual, but rather as a member of a larger group. Above all, they do not want to sell on commission, and though they frequently like to look forward to the addition later on of bonuses or commissions over and above salary, salary is their preoccupation.

What kind of sales work do seniors like? Essentially, it is sales (1) in a large corporation; (2) of a specialized nature; (3) generally, of something tangible, and preferably large and complex, like heavy machinery; (4) buttressed with an extensive training course; (5) involving as little travel as possible; and (6), common to all, salary.

While sales training was the direct responsibility of the dealers for whom the salesmen worked, Lincoln-Mercury had prepared retail sales training aids and made them available to the dealers. Prior to May 1, 1952, sales training was the responsibility of the advertising department which, in 1949, had prepared nine slide films dealing with basic principles of salesmanship, and two films on the features of the Lincoln and Mercury automobiles. The recent revival of interest in sales training had prompted requests for these films which had seen little use in the past few years. Several dealers put in orders in 1952 only later to discover that they already had purchased the films a year or so earlier but had not used them.

New Sales Training Department. The growing importance of this problem resulted in the establishment of a sales training department on May 1, 1952. Its manager reported to the manager of product promotion and distribution who, along with the manager of product sales and service and the five regional sales managers, reported to the general sales manager (Exhibit 3).

The first major project undertaken by the manager of the new department was the planning of a sales training program which would be made available for dealer use in January, 1953.

An outline of a proposed program, which would use motion pictures and sound slide films to cover various topics, was submitted in June to the manager of product promotion and distribution and the general sales manager for their approval. The outline, plus some additional descriptive material, follows:

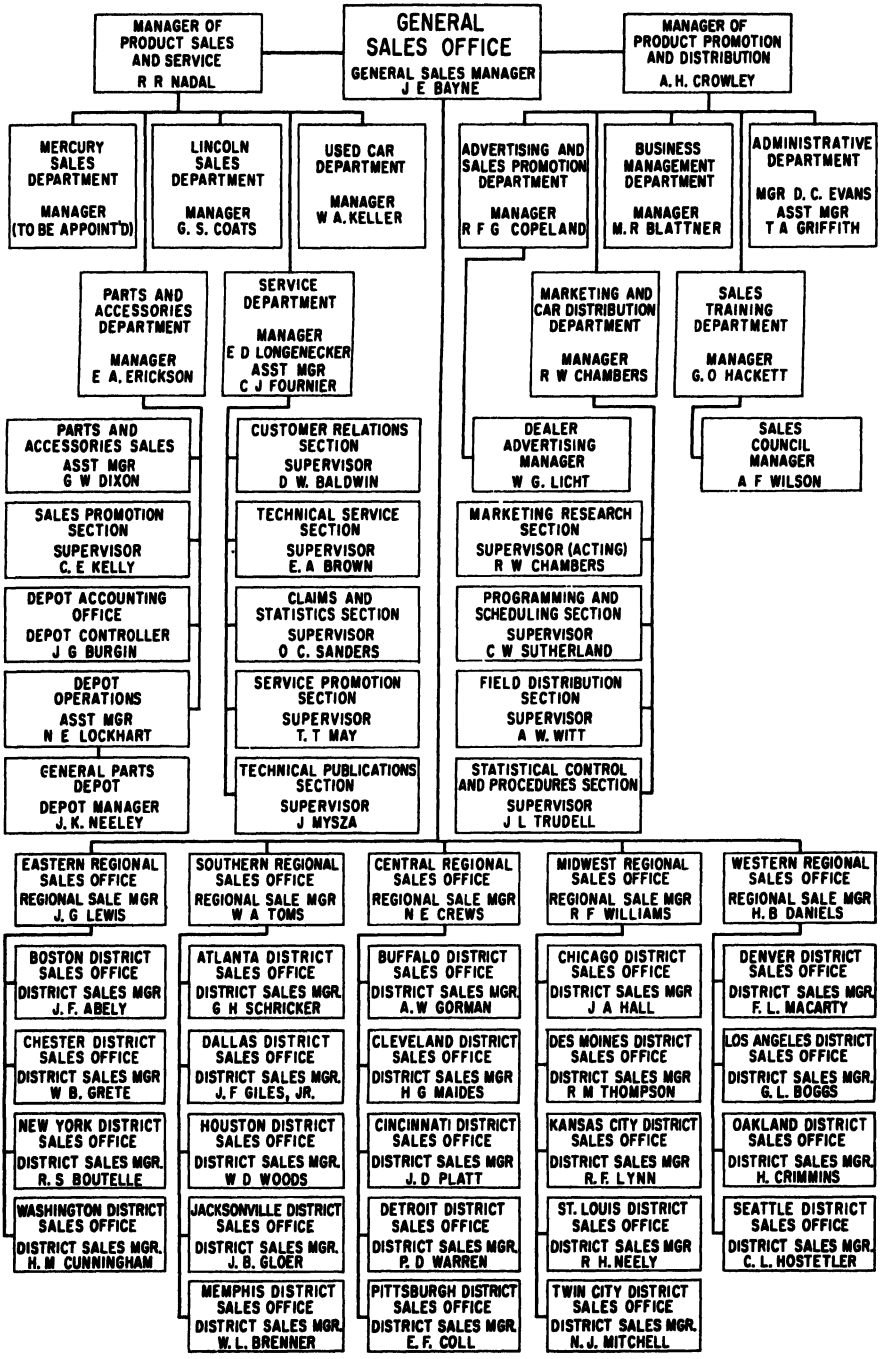
Outline of Sales Training Program

I. OBJECTIVES

Purpose of this training program is to develop the finest retail sales organization in this, or any other, industry.

1. New salesmen will be trained.
2. Present salesmen will be kept in the "selling groove."
3. Turnover of salesmen will be reduced.
4. Better salesmen from competitive lines will be attracted.

Exhibit 3. LINCOLN-MERCURY DIVISION, FORD MOTOR COMPANY



5. Better deals will result for dealers.
6. Prestige of Lincoln and Mercury cars will be enhanced locally.

Chances are this training program will be a continuous activity—like painting the San Francisco Bay bridge. Between turnover and addition of new dealers, there will be a need for training for a long time to come. Refresher courses will also be necessary before long.

II. THE DEALER

The first step is to outline this program to *all* dealers:

1. To make sure dealers know that L-M insists on having the best sales organization in the business.
2. To alert dealers to need for more local training.
3. To outline the type of salesman needed for "long haul" selling so that waste in trying to train palookas will be minimized.

This outline should include these points:

1. Report "straws in the wind" to indicate the crying need for a training program.
2. Outline the characteristics required for good, permanent salesmen.
3. Dealer must estimate how many salesmen he will need for normal sales production.
4. Dealer should then decide which of his permanent salesmen are worth training and earmark them "permanent."
5. If a dealer needs more men to add to those in point 4 to fill the requirements of point 3, he should begin a long-range search for the men described in point 2.

A dealer has a substantial investment in every salesman hired. He should safeguard that investment and make it pay off, rather than write it off.

III. THE MEDIUM

Sales training will be conducted in a school to be called "The Lincoln-Mercury Sales Round-Table."

This name implies "getting down to work."

It suggests a give-and-take round-table discussion.

It avoids use of words "school" or "training."

It implies a friendly, informal atmosphere.

The best medium for this kind of a program is films—either sound-slide films or movies.

Some of the subjects listed here can be better presented by movies, if the budget limitations permit.

Some of the subjects have already been covered by training films produced in 1949; if possible, they should be replaced by completely new films, using current models and following the format of all the other subjects.

It is proposed to present this material in a series of five 2-hour meetings; suggested schedule is discussed later. (This proposal subsequently was changed, as is explained later in the case.)

(Films were regarded by the sales training department manager as the best medium for sales training because their use insured an accurate and complete

presentation of the subject matter and permitted effective teaching by example. He believed that films held audience attention well, and that the simultaneous use of sight and sound contributed to a lasting impression. While he regarded the motion picture as better than the slide film with sound, its use was limited by higher costs and by the fact that some dealers did not have movie projectors.)

SUBJECTS FOR FIRST SESSION

1. *Opportunities of Being a L-M Salesman* (a motion picture). The first film would get the series off to a flying start on a high pitch of enthusiasm.

It could well feature Benson Ford (epitomizing the youth and vigor of the L-M organization) who could invite the audience to take a look at the industry with him.

He could guide the viewer through these subjects.

1. Magnitude of the auto industry.
2. History of the industry.
3. Ford Motor's place in industry (past, present, future).
4. Lincoln-Mercury's place in industry (past, present, future).
5. The American Road.
6. Opportunities for making money, acquiring prestige, advancement as a salesman.
7. Build up professional appeal of selling cars.
8. Invite viewer to look at the job as a lifetime proposition.

Top salesmen cannot be developed unless they have the desire to sell. This picture can help instill the desire by presenting the many incentives to selling Lincolns and Mercurys. These also are important in recruiting new salesmen.

The evidence shows, as is pointed up in the *Fortune* series on salesmanship, that there has been a general drift away from the desire to be a salesman. In particular, few college graduates—the largest and best single source for sales recruits—have anything but disdain for selling on commission.

This film can be shown to college students, making possible the college recruiting program which has been discussed before (and which *Fortune* magazine indicates is a must) at practically no extra cost or labor.

(It has been proposed that L-M visit business schools at colleges and universities once a year for the next five years to hold meetings to which all upperclassmen would be invited. The program would be devoted to the future in selling, particularly in selling Lincoln and Mercury automobiles. Those interested in such jobs would be given letters of introduction to the L-M dealers in the localities in which they preferred to work. It was believed that these meetings would not only help obtain good salesmen but would also be good public relations for the company.)

2. *Product Information: Lincoln and Mercury* (sound-slide film). One of the primary reasons for sales failures is the lack of knowledge of the product. Unless salesmen know what they have to sell and how to present it, they must either rely on taking orders or resort to price-cutting deals. The training job goes beyond presenting the features. It must also include a means for the salesmen to study the details.

This would be a two-in-one film, combining the regular 1953 product films, one on Lincoln and the other on Mercury.

They would be arranged so that the Mercury portion only would be shown to Mercury-only salesmen.

This would be a "sell" picture, designed for salesmen's use with prospects. It would be self-liquidating.

Supplementary product information would be included in later films (on salesroom presentation and road demonstration).

3. *Quality Control* (a motion picture). Because quality control is so vital to both Mercury and Lincoln, every salesman should know the complete story, and know how to use it in his selling.

This film would combat the attitude that one make of car is about as good as another. Such an attitude often is due to a simple lack of knowledge of the manufacturing policies and practices, of the engineering creativeness, of the quality controls on every step of product development.

One result of a lack of conviction that his car is the best is that many good salesmen will float from one dealership to another. Without personal conviction that his product is absolutely the best on the market, no salesman can have the spirit and the deep-seated enthusiasm to do an outstanding sales job.

No organization has a better story of product superiority than L-M or a better basis for the story than the L-M methods of quality control.

To build enthusiastic conviction, it is necessary to do more than recount inspection steps taken in the manufacture of the car. The story must be presented with an emotional impact.

This film could feature Mr. Ostrander and others responsible for L-M's quality control policies.

It could be a movie designed for use by the Ford Motor Film Library—extra dividends.

Considerable footage on this subject has already been shot for the Ford Motor Company management picture and for TV commercials.

SUBJECTS FOR SECOND SESSION

4. *Advertising and Sales Promotion Support* (a sound-slide film). Few salesmen realize all that national advertising does for them and fewer know how to make the best use of the selling aids provided them. L-M national advertising, cooperative local advertising, L-M dealer association television and, in fact, the products on the street provide L-M salesmen with the most powerful preselling assistance in the industry. The various selling tools such as catalogues, color upholstery books, and product slide films are more powerful ammunition.

By familiarizing the salesmen with current advertising and sales promotion, and training them in how to make the best use of them, these materials can become doubly effective.

In order that the meetings be kept continually up to date with the latest advertising and promotional material, the familiarization phase of this presentation can best be handled in a live presentation by the meeting leader. The use phase to be handled with a short sound-slide film.

5. *Salesroom Fundamentals* (a movie). Automobile salesmen simply do not know how to act in the salesroom.

Since the war, auto dealers have been severely criticized by the public for the lack of common decency on the part of their salesmen in the showroom. This condition produces a deep-seated resentment which appears to be growing. Frequently, auto salesmen know how to treat people but do the wrong things without realizing they are doing them.

This subject is so simple, so fundamental, so necessary, it is tragic that so many salesmen are so remiss in such obvious things as:

Appearance	Keeping busy
Hospitality	Type of clothing worn
Good manners	Alertness to visitors
Neatness	Use of telephone, etc.
Knowledge of products	

Device: Open with scene of automobile salesman at a department store counter, being treated indifferently by a clerk. Picture his indignation, then quickly switch to auto salesroom for emphasis on proper way to handle customers interested in cars.

Recent L-M shopping surveys prove the need of better salesroom conduct.

6. *Prospecting for Customers* (a sound-slide film). Cover the 1,001 ways of finding prospects.

List them so plainly the greenest rookie will know how to begin selling, and the veteran salesman will check-list his current procedure to make sure he isn't overlooking any bets.

Show how to use mail, telephone, outside helpers, registration lists and other devices.

Discuss "wouldjatakes" honestly and candidly, bearing in mind that volume dealer salesmen will be attending the "Selleree."

This film is similar to the 1949 "Bright Prospects" training picture.

SUBJECTS FOR THIRD SESSION

7. *Salesroom Presentation* (a sound-slide film). Purpose of this subject is to show the salesman how to present the various selling features of the 1953 products in terms of the customer's desires.

It tells how to use the car in a salesroom

—use of a regular route around the car to get in all features

—how to describe those features

—how to use sales tools

—keep trying for order without leaving the salesroom

—every possible step to follow in wrapping up a sale indoors.

8. *Road Demonstration* (a movie). The salesman now has his prospect out on the road . . . in his own demonstrator . . . driving over a predetermined route . . . winding up at the salesroom to close the sale.

Demonstrations are the most effective selling step. The new salesman is faced with the problem of knowing just what to demonstrate and then knowing how

to do it. Purpose of this subject: to show, by example, how to put on a selling demonstration, and second, to sell the salesman on the effectiveness of demonstrations.

These purposes can best be accomplished by means of a motion picture. In the picture, the camera would be the prospect who takes a ride over a planned route. At first, the salesman would have the wheel and carry on his selling conversation, tied in with the road conditions. The audience would see the car's performance through the eyes of the prospect—the camera lens being placed in the position of the prospect's eyes. Later, the camera, acting the part of the prospect, would take the driver's seat and put the car through its paces, the object being to sell the audience just as a prospect is sold—by demonstration.

9. *Appraisal and Trade-In* (a sound-slide film). In this film, the prospect begins to sell his old car, competing with the salesman in salesmanship.

The L-M salesman must know how to get a fair, accurate appraisal . . . must know how to present it in a persuasive, convincing manner.

He must avoid the tactics used by some volume dealers.

Dickering is a normal part of the purchase of most cars, and this film covers the subject thoroughly.

(This film is similar to the 1949 "Trade-In Tactics" picture.)

10. *Financing* (a sound-slide film). Time payment plans can be helpful to salesmen. This film tells how and why.

It shows how to use financing as a closing opportunity . . . how to try for a bigger down payment . . . and larger monthly payments . . . and when to go back to the buyer for his next sale.

SUBJECTS FOR FOURTH SESSION

11. *Competition* (a sound-slide film). How to handle—and beat—competition is covered in this subject.

Keep competition out of the sales pitch unless the prospect brings it up. What to say when it does happen . . . what tools to use . . . how to get back to the principal subject: the new Mercury or Lincoln.

Lincoln-Mercury has invested heavily in the production and distribution of competitive comparison materials. These materials are excellent, but, unless they are in the hands of salesmen who know the fundamentals of handling competition, they can do more harm than good.

In order to demonstrate the right way to handle competitive situations, it is suggested that a typical selling situation be shown on the screen. In this situation, the prospect expressed a preference for a competitive car. The salesman, using the basic principles of handling competition and the competitive tools furnished him, manages to turn this preference to Lincoln or Mercury.

12. *Selling Service, Parts and Accessories* (a sound-slide film). The dealership service department can be a decisive factor in making some sales.

Individual sales can be stepped up by adding accessories and optional equipment to the car. Too often, salesmen forget the profit possibilities in selling accessories when they are selling the new car.

Authorized parts and accessories should be stressed with every purchaser.

Salesmen frequently fail to sell the prospect on the accessories already installed on the new car, thereby causing the dealership to be accused of loading.

13. *Selling to Women* (a motion picture). Women influence the purchase of many automobiles—buy many cars outright.

Some L-M advertising in the past has been aimed directly at the feminine buyer . . . that's how important she is to this business.

Selling to women requires specialized sales techniques, and, more especially, it requires a conditioned attitude on the part of the salesman.

There are many ways in which a salesman can make his sales pitch more effective when selling to women. He should stress the appearance, finish, upholstery and appointments, easy handling, gadgets, etc.

Women are "professional shoppers." L-M salesmen should be professional salesmen when dealing with feminine prospects.

The problem in covering this subject is primarily one of building the proper attitude in the minds of the salesmen while showing the specialized selling techniques. Can best be done with a short motion picture.

SUBJECTS FOR FIFTH SESSION

14. *Closing the Deal; Stepping Up Mercury Buyer to a Lincoln* (a sound-slide film). In this subject, the salesman is taught never to fear asking for the order; he is told when and why to ask for it.

He is shown ways of getting the signature on the order blank.

He is shown how to add accessories and optional equipment to the order.

Ways of stepping a Mercury buyer up to a Monterey, a Cosmopolitan buyer up to a Capri will be shown—even how to move a Mercury buyer up to a Lincoln.

In many cases, the reason new salesmen do not attempt to sell Lincolns is a fear of asking the prospect to buy an expensive car. A smart salesman will lay the groundwork for the sale, even though the prospect may express an interest only in Mercury. He will sell the Mercury but never does he close the door to the sale of the Lincoln.

Purpose of this subject is to remove the fear of stepping up prospects by showing the simple steps the salesman can take throughout the sale. In format, this subject might be handled more or less as a review of the preceding subjects in which we show how the salesman plants the Lincoln idea in the prospect's mind even while selling the Mercury. We also, of course, show how he asks for an order for Lincoln after he has closed the Mercury sale.

15. *Delivery of the New Car* (a sound-slide film). The start of the process of owner follow-up is at the time of delivery of the new car. It is then that the customer forms his opinions of how much the dealership appreciates his business.

A frequent complaint is that salesmen do not deliver the new car properly to buyers. This charge is frequently advanced by service department managers.

The problem here is to show the salesmen the personal profit and future sales possibilities to be had from properly delivering the new car.

Points to be stressed:

Final check by salesman of the new car
Delivery of the new car to the customer
One final demonstration
Explanation of all controls
Explanation of the warranty
How to sell the service department
Introducing the buyer to the service manager
How to follow up the new owner for leads.

The subject probably can best be handled by showing the inevitable results of improper delivery procedure in contrast to the results of the right way.

16. *Used Car Selling* (a sound-slide film). An investigation of members of Inner Circle and other top salesmen shows that many new car salesmen also have good used car sales records.

More new car salesmen should retail used cars. When this happens, more dealers will retail their used cars, too!

Points to cover in this subject:
Size of the used car market
Salesman can sell all makes, all colors, all body styles, all prices, when he sells used cars
The importance to new car sales of keeping used cars moving out steadily
The sales techniques that sell new cars will also sell used cars.

17. *Conclusion* (a motion picture). This might well be a motion picture, to get fullest advantage of the opportunity to conclude this series on a high pitch.

It would stress the "professional" side of automobile selling.
It would give salesmen a "lift" before they graduate.
It should repeat some of the promises made in the opening film.

J. E. Bayne (general sales manager) and other top executives from L-M should be featured in this film. It could open on an informal pace, such as is employed in the "Let's Talk It Over with Joe Bayne" column (in a monthly publication for Lincoln and Mercury salesmen). In format, this section could be handled as a speech by Mr. Bayne, using pick-up footage from the other films in the program to illustrate his points.

IV. PROCEDURE

A. L-M dealership sales managers for an entire district will be assembled at a central point for a two-day session.

1. Facts proving the need for a training program will be presented.
2. The entire "Sales Round-Table" will be shown to these sales managers to
   a) emphasize L-M's determination to build the best retail organization in the industry;
   b) solicit their support of the Round-Table;
   c) get them started on their own training program; and
   d) show them how they must train their own men.
3. Announce formation of a "Sales Managers' Council."
   a) This activity has been requested by L-M sales managers.

b) It will serve as a vehicle to bring sales management problems to a central point. (It does not contemplate meetings of dealership sales managers.)

c) It will be the vehicle for carrying L-M training plans from Detroit and from districts and regions to individual salesmen via the dealership sales managers.

B. After the training program has been accepted by the dealership sales managers, the "Sales Round-Table" will then be taken to the retail salesmen themselves—reaching every Lincoln and Mercury salesman in every district throughout the nation.

Route 1. In a series of five morning meetings, running from 8 to 10 a.m., the Round-Table will be presented to salesmen in a town by a L-M district representative (district manager or assistant, field manager, Lincoln manager, etc.).

Complete script will be provided (as well as films and records) so that one man could pick up where another left off.

A printed review of each subject (including quiz) will be given every salesman. Quiz papers will be graded at district offices, then returned to the men. Salesmen who pass the course get:

1. Certificate of Achievement
2. Ten Sales Council points—2 per meeting, the equivalent of the sales points for a Mercury sale. (The points were not tied in with compensation, but point totals determined which salesmen would become members of the Inner Circle to which only the top salesmen belonged.)

Route 2. When it is not feasible (because of geographical or time restrictions) for district representatives to conduct the Round-Table, the dealership sales manager will do the job, following the same procedure and using the same script and films (on loan). This schedule is recommended to get dealerships in the habit of holding morning meetings every morning.

Afterwards, the films will be available (on loan) to sales managers who may wish to have their salesmen brush up on a subject.

Salesmen who attend and pass the "Round-Table" in their own dealerships will get the same awards as listed under Route 1.

This is not the preferred route, but it does make the training program available for every L-M salesman in the country.

V. ESTIMATED COST

Films (sound-slide or motion picture as indicated), leaders' scripts, meeting guides, reference books and quiz sheets for salesmen	$275,000 to $350,000
Sales manager meetings in districts	23,000
Certificates for salesmen	5,000
IBM cards for salesmen's sales points	1,000
Monthly bulletins for sales managers	6,000
	$310,000 to $385,000

(The cost of individual films would vary depending on their type, length, whether they were to be in black and white or in color, and the extent to which old film footage could be incorporated. The motion picture to be used in the first session, dealing with opportunities of being an L-M salesman, would cost an estimated $45,000 to $55,000, not including an additional $1,800 to $2,000 for 50 prints. This would be an entirely new 25-minute movie in black and white. The estimate for a new 10- to 12-minute black and white movie on road demonstration was $10,000 to $15,000. Fifty prints, including reels and cans, would cost an additional $750 to $1,000, and 7,500 copies of a 12-page reference book containing one perforated page for a quiz would cost from $3,000 to $3,500. The reference book would be $8\frac{1}{2}'' \times 11\frac{1}{2}''$ in size, in two colors, and illustrated with pictures taken from the film.)

[A new 15- to 20-minute sound-slide film on the 1953 Lincoln (or Mercury), containing 75 to 100 frames in color, would cost from $8,000 to $10,000. Fifty prints and pressings would cost $250 to $300, and 7,500 copies of a 12-page reference book, illustrated from the slide film, would cost from $3,000 to $3,500. A black and white sound-slide film on salesroom presentation was estimated to cost between $7,000 and $7,500. It would contain 100 to 125 frames and would take from 15 to 20 minutes to show. Prints and pressings would cost an additional $225 to $250, reference books $3,000 to $3,500.]

The outline was approved by the sales manager and the manager of product promotion and distribution. After presenting the plans to all Lincoln-Mercury Division sales department personnel, the sales training manager then met with 50 to 60 dealers and dealer sales managers at four district offices (St. Louis, Kansas City, Omaha, and Denver) to get their reactions. Generally, the program was accepted, although the discussions resulted in changing the plan of procedure to the following:

1. L-M would make all training material (films, booklets, etc.) available to the dealers whose sales managers (rather than L-M district personnel) would conduct the sales training meetings.
2. The sound-slide films would be sold to dealers at prices designed to cover costs. This meant that about 1,000 prints of the films would be required instead of 50, as originally was planned. Whether movies also would be sold to dealers had not been decided. While most dealers owned slide-film projectors, many did not have projectors for motion pictures. The movies might be loaned, L-M absorbing the cost. If all films were sold, it was hoped that the cost per dealer would be under $300, preferably near $200. Such an expenditure would be warranted for the 1,000 largest dealers, but not for those who sold 30 or fewer cars per year.
3. The training program would start in January, after the Christmas and New Year's holidays, and after (according to tentative plans) the 1953 models had been shown to dealers in October and to the public in November and December. All dealer sales managers would meet at their respective district offices for two days, starting January 12, 1953. At this time, the great need

for training would be emphasized, the training films would be shown, and suggestions would be made as to the conduct of the training sessions.

4. The films would be shown to all members of dealer salesforces during the morning sales meetings which dealers were encouraged to hold daily. With one film to be shown each day, the program would extend over 17 meetings. Morning meetings usually lasted about 30 minutes, and it was believed that the training session plus regular business could be handled in about 45 minutes. Dealer sales managers would be supplied with brief guides for each topic, and comments and questions from salesmen would be invited. The films themselves, however, would carry most of the training burden.
5. A short, multiple-choice quiz on each subject would be taken by the salesmen at the end of each session. Quiz papers would be forwarded to the district offices for grading, this serving as a check on whether the program actually had been conducted as planned by the various dealers.
6. After the training program had been held for the first time, district office personnel would talk to salesmen, dealers, and dealer sales managers to get their reactions.
7. L-M would provide each dealer sales manager with a kit of sales topics designed for use in the daily meetings of dealer salesmen after the 17-session training program had been concluded. A week's supply of five topics would be sent out at one time. It was hoped that this would continue to focus attention on problems of selling, and encourage the holding of regular sales meetings.

In preparing the initial outline of the training program, the sales training manager had listed the topics he thought should be included. Plans were modified somewhat as the result of discussions with other L-M sales executives, the dealers, and dealer sales managers. Regional and district managers would be asked what they thought should be covered under each topic before the sales training manager worked out detailed plans with script writers from the companies selected to produce the films. New model cars for the films had been promised by August.

The sales training program was viewed as a continuing activity. Dealers would be requested to repeat the basic training course in two or three months after the first showing because the large turnover meant that many new men would have joined the salesforces by that time. Later, the sales training manager hoped to be able to supplement the basic course with an advanced course in salesmanship.

Was the sales training program, as planned in the summer of 1952, likely to be effective? Would you recommend any changes?

CASES IN BRIEF

1. In a number of states, so-called fair employment practices acts have been proposed and in a few states, notably New York and Massachusetts, such laws have

been passed. Federal legislation of the same type is in the controversial stage.

How will such acts affect the employment of salesmen?

2. A manufacturer of earth-moving equipment allied to the tractor industry found it difficult to recruit sufficient sales engineers to sell the product. It was the opinion of the executives that the key to continued growth lay largely in the ability of its engineers to devise and create new and better applications of tractor power and in the ability of its marketing organization to sell these varied uses to those who had a need for such services. It was the belief of these executives that men should possess a strong aptitude and interest in engineering problems, together with a background in business administration.

What would you suggest as a procedure for securing engineers for sales positions?

What conditions must the manufacturer meet in order to attract men?

3. A sales managers' club of an eastern city recently made the following announcement:

> It is a real pleasure to announce a new Club project now available to all members. This project concerns RECRUITING NEW SALESMEN AND APTITUDE TESTING.
>
> Your Executive Committee has realized the need to minimize the amount of time wasted by sales managers in interviewing men not at all suited for sales work Also, your Committee has realized the need for authentic Aptitude Testing at a reasonable fee.
>
> After careful study of the above needs, your Club is sponsoring preliminary Sales Aptitude Testing to be conducted by Mr. Clyde Richardson of the New Bedford Institute. Mr. Richardson is qualified to handle complete testing, but has agreed to set up a plan for us which is preliminary in nature and at a cost of only $10 to the applicant. This will allow you to refer interested sales applicants to sound testing before wasting time on interviews. Each sales manager sending men to Mr. Richardson will receive a complete analysis of the men referred to him for testing.
>
> Secondly, if the originating sales manager does not need or hire the applicant, he will fall into a "general file" of available men. This means that at any time a member of the Sales Managers Club needs sales personnel, he is free to call Mr. Richardson for possible applicants.

Was this likely to be a fruitful source of good candidates?

4. Where should the Sutton Company, manufacturing women's and misses' shoes, seek new salesmen to be trained in its course? Past experience has not given any really significant clue to sources. Salesmen now in the employ of other manufacturers, retail shoe salesmen, young men in the Sutton plant, men just out of high school or college, have all been suggested.

5. Early in 1946, the National Electrical Wholesalers Association adopted a program for the selection and development of personnel proposed by an aptitude testing organization, designed for use by various electrical wholesalers and retailers who were members of the NEWA. A description of the program was prepared in the form of a hiring manual offered for sale to wholesalers at a nominal price. The wholesaler's hiring kit contained forms and suggestions for a hiring procedure, the purpose of which was to increase the effectiveness of personnel selection and to eliminate losses resulting from turnover and misplaced workers. It consisted of:

1. The hiring manual which described the methods and purposes of each form.
2. Preliminary interview forms.
3. Personnel history inventory forms.
4. Interviewer's guide.
5. Work reference, investigation forms.
6. Salesmen's rating reports.
7. Selector test batteries.
8. Comprehensive test batteries.

The program was so designed that all the selection work except for the aptitude and

ability testing could be done by the company buying the service. Instructions were given for these aptitude and ability tests, but it was necessary to send them into the testing organization for grading. A confidential report was submitted within 24 hours. For members the charge for the analysis and report was $15 for the simpler battery, $25 for the comprehensive battery.

Under what conditions will a procedure of this sort tend to accomplish the objectives of the association?

6. In its annual report for 1947–1948, the president of the National Confectioners' Association gave the members information about a sales training plan. The program had been described briefly as follows in earlier association literature:

"The program was organized in 1942 to answer the question why some confectionery wholesalers sold more products than others. It was hoped that the answer to this question might furnish the basis for training.

"The distribution committee of the association arranged for a survey to be conducted in the city of Detroit in which the selling jobs done by men from over 20 firms were studied. The survey showed that those salesmen who did a 'merchandising' job with their retail customers sold up to five times as much candy as the 'mere order-takers.' On the basis of this research, the merchandising director of the association, in cooperation with the United States Office of Education, drew up a program of sales training and termed it the balanced selling program. In a presentation in one of the association publications, the program was described in some detail in question and answer form:

1. *Who May Attend?* The owners, partners, and sales managers and any salesman employed by manufacturers or wholesalers to sell candy to retailers.
2. *What For?* To be coached in the most modern sales techniques for merchandising candy and to learn the importance of helping retailers sell more candy on the basis of local market potentials.
3. *How Many?* The average class should be composed of approximately 15 people. Separate classes are recommended for management and for wholesale salesmen. Where 15 individuals are not available in a trading area, special arrangements will be made for those who are available.
4. *Who Teaches?* The instructors are qualified by training and experience, as well as being selected under local, state, and national regulations of the George-Barden Act. Teachers are paid from local, state, and Federal public education funds. Only experts have been chosen to coach 'balanced selling' classes.
5. *What Is the Length of the Course?* Ten hours of classroom coaching and instruction are required to absorb the contents of the 'balanced selling' training manuals. Classes may meet two hours a week for five consecutive weeks, or any other schedule totaling a minimum of ten hours.
6. *When Does the Class Meet?* At a time and day that is most convenient to the majority of the enrollees.
7. *Where Will the Class Meet?* In a public school or public facility available. Special arrangements can be made locally for each group, in consultation with the local or state educational officials or the local chamber of commerce office.
8. *What Is the Cost?* The training is absolutely free to the enrollees. This program is adult extension public education provided under the provisions of the George-Barden Act (1946).
9. *Are Text Books Used?* Ten 'balanced selling' training manuals are used as reference material to supplement the oral instructions. The set of ten training text books, one for each hour of training, has been pre-

pared in cooperation with the U.S. Office of Education and forms a vital part of the training program.

10. *How Are the Text Books Distributed?* The sets of ten manuals are sold to the wholesaler by the NCA on a cost-sharing basis of $1 per manual ($10 the set), for each enrollee. The books are shipped to the instructor for his distribution to the enrollees."

In March, 1947, the first class was held and, after that time, classes were organized and held throughout the United States. A total of 15 to 25 students was coached by an instructor provided by the state distributive education office. Funds for such instruction were obtained through local, state, and Federal appropriations.

Discuss this program

Under what conditions do such training programs deserve the support of manufacturers and wholesalers?

7. The Royal Gorge Insurance Company with about 60 branches in 35 states had approximately $700,000,000 of insurance in force. In its top year, it had written up to $160,000,000 new insurance but, in some depression years, business had declined to less than $50,000,000. While some 1,500 salesmen were employed by the company, only 600 of these did full-time selling. Because less than 15% of the 600 produced business in excess of $100,000 each, the company believed that its methods of selling and supervision of sales needed improvement, and the proposal was made both to set up a new selection plan and to develop a training plan in which training would proceed gradually yet thoroughly under the guidance of branch managers. The selection plans consisted of multiple interviews, personal rating checks or application blanks, and psychological tests of the type recommended by the Life Insurance Sales Research Bureau. Interviews were to be conducted by branch managers on the basis of a carefully worked out plan which would provide branch managers with substantial pertinent information about the candidate on the one hand, and provide the candidate on the other with needed information about the job of selling insurance.

The company's training program was to consist of three major parts:

1. Training under the supervision of the agency manager for a period of 12 weeks during which the candidate studied material provided him and did a certain amount of work in compiling direct-mail lists, making out reports, and learning sales talks. The amount of attention to be given to each candidate by the agency manager was to be very considerable, although the plan was to have a combination work and study period in which the man was to prepare himself so that he could write a certain amount of business. If the candidate were reasonably successful, he was assigned to go to one of the district schools.

2. Instruction at district school directed by the educational director.

3. Final instruction at an advanced school of instruction to be held at the home office under the supervision of the educational director. In order to qualify for the district school, the salesman had to finish the 12-week period and pass certain examinations with credit; in order to qualify for the advanced school, it was necessary for the salesman to pass certain tests with satisfactory grades, prepare the required direct-mail lists, and write at least $60,000 of new business, at least half of which must be written unassisted by the district manager or educational director.

Is this plan a satisfactory one?

8. A recent advertisement for salesmen in *The New York Times* asked the applicants to write in their own handwriting a letter of application enclosing a photograph.

To what extent may selection be made upon the basis of these data?

9. "The selection of salesmen, because of the intangible factors involved, will always be an unsatisfactory task. The device of the rating scale, used particularly

in connection with the personal interview method, greatly increases the accuracy and specificness of judgment. The rating scale does, however, have definite and manifest limitations. . . ."

What are these limitations?

10. Discuss the relationship between the score or the I.Q. in mental alertness tests and success as a salesman. Must good salesmen be "intelligent"?

11. Should training of salesforce be centralized or decentralized? To what extent should the decision as to centralization be influenced by the size of sales districts, the size of the enterprise, location of sales and production headquarters, and type of product?

12. Should sales training be confined to new recruits to the salesforce or should older members of the organization be retrained at intervals?

13. Should a company manufacturing machine tools, cutters, milling machines, etc., continue a course of training which it now is requiring—4 years' shop apprenticeship and 2 years' special training on particular classes of machines—before permitting young men to go out in the field as assistants to older salesmen? Salesmen are expected by this company to design special attachments for the various large machines which are made and sold.

14. Discuss the uses and limitations of the application blank as a tool in the selection of salesforces.

B. COMPENSATION OF SALESFORCE

Two questions are involved in determination of salesmen's compensation: (1) the level of income which is to be paid to the salesman for his service and (2) the methods of payment, the arrangement whereby this income is to be paid to him.

As to the level of income, little may be said which does not apply to every class of compensation for work. It should be sufficient to provide for a reasonable standard of living for the salesman in his class. It is fixed in part by the amount of competition for the services of salesmen of a particular type needed and further by the policy of the company, which may be to pay only the going market rate or possibly to hire superior men for whom a correspondingly higher income is offered.

The compensation plan should, in addition to giving compensation for work done, provide for payment in such a way that the sales effort of the company should be expended when and where desired. The loyalty of the salesforce should not be adversely affected, while unit cost of salesforce expense should be kept at the lowest consistent figure.

It must be emphasized that compensation plans alone are not a substitute for management. They may constitute a useful adjunct but will not take the place of adequate supervision, training, and direction.

Plans of compensation vary widely. The two basic types are salary, in which compensation is based upon the time periods and commission methods, in which compensation is based much more directly upon the amount and difficulty of work done. Other elements may be added, such as bonuses, profit sharing, and the like; and the two methods may be combined in various ways to eliminate some of the disadvantages of each.

The straight salary plan of compensation provides that a salesman shall be compensated by the payment of a stipulated sum for a period of time, usually a week, month, or year. For traveling salesmen, this payment is usually exclusive of travel expenses. Salary plans of compensation have certain definite advantages from the viewpoint of the salesmen. They tend to relieve him of anxiety regarding the regularity of earnings, thus permitting him to exert himself fully on the job. Salary plans presumably make it possible and profitable for salesmen to acquire knowledge of the different types of work for building up good will as a basis for future sales; they are not tempted to slight reselling work which may not yield immediate orders but which may be very valuable to the firm at a future time. Again, the fact that salesmen are operating under the salary plan makes them in a sense more clearly members of the sales organization and more amenable to direction. There is, however, a definite lack of incentive in the salary plan; adjustment of salary is usually not made accurately or promptly; good work is not sufficiently rewarded and poor work may be overpaid. A salesman who does not find his income adjusted to the effort which he makes every day or every week tends to relax efforts.

The commission plan of compensation involves the graduation of compensation according to volume of sales or profits, usually on a percentage basis. From the viewpoint of the house, there is often an advantage in paying commissions because the salesman is rewarded in accordance with volume of sales or profits. The plan ensures incentive, which a man may need to keep him industrious and alert and which increases because the commission plan ordinarily does not limit earnings as does the salary plan. The unusual salesman is able to make large earnings, often much larger than would be paid him on a salary basis. On the other hand, the commission plan tends to exert pressure upon a salesman to get volume of sales or profits, even at the expense of good will. A salesman is inclined to push easy-selling goods or goods with the largest commissions. Many variations may be made in commission plans to meet difficulties encountered in order to avoid abandonment of the plan as a whole.

More common today than either of the two principal plans are the combination plans which aim to furnish both an incentive element and regularity of income. Regularity of income is furnished by a limited salary, while the incentive is furnished by commission or bonuses arranged in numerous ways.

There are, of course, many other questions which need to be decided in connection with compensation. Travel expenses, control of expenditures for automobiles, splitting of commissions, provisions for salesmen's pensions—these and many more deserve study under particular circumstances.

80. BENEDICT COMPANY

The Benedict Company, a manufacturer of fine chemicals, had always paid its salesmen straight salaries. The executives thought that if an incentive plan of compensation would relieve them of some of the problems of administering the level of salesmen's earnings it would be welcome. However, they felt that salary compensation was the most suitable method for paying their salesmen fairly, at the same time preserving desirable relationships within the company and with customers.

The company manufactured medicinal chemicals which were sold to pharmaceutical manufacturers, wholesale druggists, physicians' supply houses, and hospitals. Highly refined analytical reagent chemicals were sold primarily to laboratory supply dealers for resale to universities for teaching and research, and industrial testing and research laboratories. General industrial chemicals were sold through various types of industrial and photographic supply distributors and direct to some manufacturers who purchased in bulk quantities. These major product groups were sold to a total of 21 classes of customers.

In 1948 the outside salesforce numbering about 60 salesmen under home office supervision included 30 territorial managers and 30 junior salesmen and trainees. Most territory managers had one or two junior salesmen as assistants, while a few had none. All salesmen sold the company's full line of products and solicited all types of customers. Therefore, the salesmen had to have a reasonably broad knowledge of chemistry so as to be familiar with the utilization of the full line of products. The sales department in the home office was departmentalized with product specialists and a technical service department to assist the salesmen in special chemical problems.

Following World War II, the sales manager experimentally assigned quotas to the salesmen. It was difficult to develop satisfactory statistical measures as a basis for setting standards of performance because of the complexity of uses for the company's products, the existence of a sellers' market for some chemicals, and changes in total demand for specific chemicals. For example, sales volume for certain medicinal chemicals was limited by the prescriptions of physicians all over the country. The occurrence of epidemics and changes in therapeutic methods influenced volume of sales of certain chemicals much more than could any increase in selling effort on those items. Consequently the quotas assigned could not be used as a direct basis for compensation, but provided some incentive through pride of accomplishment, recognition within the organization, and, perhaps, indirectly through changes in salary in recognition of quota performance.

Although the executives favored an incentive compensation plan in principle, such a plan was not considered compatible with certain company ob-

jectives. It was essential for the company to maintain its reputation as a fine chemical producer. This reputation was based not only on product quality but also on relations with customers in business matters, fair dealing, and dignified representation by its salesmen. Any incentive putting direct pressure on salesmen for higher sales volume might weaken the company's reputation for serving its customers' interests.

Furthermore the executives sought to have the company's employees feel that its obligations for their welfare were placed ahead of profitability. The salary method of compensation for salesmen seemed most suitable for assuring the salesmen that the company wanted to extend lifetime tenure to them. To the extent that morale was supported by such policies, the company also profited, of course. The company encouraged each salesman and his family to live in the major city of his territory and to establish firm roots in the civic life of the community.

The executives attempted to administer the salesmen's compensation liberally. Expenses were paid for travel and attendance at meetings of professional associations. The company made a standing offer to defray one-half the cost of night school courses that would improve a man's competence. Salesmen's expenses on company business were paid by advancing an agreed allowance to each salesman. When the fund in the salesman's possession fell below a predetermined point according to his weekly expense reports, another "unit," usually $100 or $200, was forwarded to him.

Salesmen's salaries were gone over regularly within a system established for review of all salaried positions in the company. Salesmen receiving less than $5,000 were considered for salary revision every six months, while those at $5,000 and over were reviewed annually. A man's records were examined 45 days ahead of the anniversary of hiring, promotion, or last salary increase so as to allow time for consideration and changes to be made effective on the anniversary. Salaries for territorial managers ranged from $4,500 to $10,000 in 1948, while their assistants ranged from $3,600 to about $6,000.

81. GOVE GRAIN COMPANY

The Gove Grain Company, located in Chicago, manufactured feeds and other farm requirements which were sold throughout the country to farm supply dealers through a salesforce of 350 salesmen. The salesmen, paid salaries plus bonuses for quota achievement, were expected to function as managers of their sales territories and were held responsible for maintaining and stimulating the tonnage flow of feeds in every active market. The company followed a policy of direct sale to selected farm supply dealers who in turn sold feeds to farmers and livestock feeders in their areas. The company's salesmen paid particular attention to developing the sales volume of the dealers in their territories by maintaining personal contact with the leading

farmers with substantial amounts of livestock, cattle feeders, and poultry farms.

The company's branded feeds were prepared from grains and other ingredients carefully blended to provide feeds suitable for various kinds of livestock and types of feeding. Extensive experimental work and testing was carried on, both in research laboratories and on an experimental farm. Research had demonstrated that a number of variations in the ingredients could be made yielding equally high quality and nutritious feeds—for example, limited substitutions among corn, wheat, barley, oats, and sorghum grains with inequalities in protein, fiber, etc., equalized by compensating shifts in other ingredients. However, changes in color and texture of the product resulted, and sometimes caused doubt as to uniformity of quality in the uninformed buyer's mind.

The executives believed that the company could best serve its customers in reality and insure profitable operation by study of supply and price variations in the grain markets to produce the best possible feeds at the lowest cost for the feeder. At any given time feeds with closely controlled nutritive qualities were produced with formulas utilizing the lowest cost grains currently available.

Much of the Gove salesman's work was educational, providing his dealers with information about best feeding techniques and data showing the results expected from Gove products. He worked to eliminate misconceptions about feeds and animal feeding, such as effect of variations in color and texture on nutritive quality mentioned above. He tried, by personal solicitation, to have selected key feeders in each area follow feeding programs developed by Gove research.

Although Gove salesmen did not require extensive background in formal education, they had to know farming and in particular had to become experts in animal feeding. An important factor in the success of the company's leading sales territories was the ability and willingness on the part of the salesman to understand and serve farmers and rural dealers. The salesmen had to show good judgment in the selection of suitably located dealers with the facilities and personal ability to handle volume feed business. They assisted the dealers by advising in store management and training of their sales personnel in addition to providing information on products and feeding and the wide range of promotional materials and direct mail advertising pieces developed by the company to help dealers tie their selling efforts in with the radio, farm journal, and outdoor advertising of the company.

In addition to salary, the salesmen were paid bonuses for sales in excess of a minimum quota each month. For the purpose of setting quotas in points, a ton of one of the standard feeds was assigned a value of one point. Other feeds were given the same point value or were allowed more points per ton or a fraction of a point per ton depending upon the relative profitability of

the feed. Minimum quotas were set at the number of points required to equal salary and expenses with an assigned point value of $2 per point. (The total of salary and expected expenses divided by $2 equaled the monthly quota in points.) Points earned for sales in excess of the minimum quota for the month were worth 50 cents, 75 cents, or $1 in bonus with the rate increasing as sales increased in steps of 50 points.

Salaries were paid monthly, bonuses monthly, and expenses reimbursed weekly. The compensation plan included a provision for adjustment upward or downward in the quota for savings or excess spending for travel and business expenses at the rate of one point for each $2 of expense variation from estimate. A written agreement was entered into with each salesman in the following form:

EMPLOYMENT AGREEMENT

In consideration of the salary herein mentioned, and the services rendered by the Territory Salesman employed, this agreement is entered into by and between the Gove Grain Company of Chicago, Illinois, hereinafter known as the "Company," and _____ of _____ hereinafter known as the Salesman."

Witnesses:

1. That the Company engages the services of the Salesman subject to the restrictions that:

(a) The applicant must pass satisfactorily a complete physical examination as specified by the company.

(b) The required application for surety bond for $500.00 must be approved by the Bonding Company.

Such employment to begin _____ and end with termination of this agreement for any reason.

2. That the Salesman agrees to devote his entire time to the work assigned to him by the Company.

3. That it is mutually agreed between the parties to this agreement that in event of any change of territory, after the execution of this agreement, such change shall not affect the other terms of this agreement, unless mutually agreed upon when such change is made.

4. That the salary to be paid the Salesman shall be at the rate of $_____ per month, payable monthly.

5. That the Company requires: (1) a detailed weekly expense account mailed each Saturday; (2) a weekly route sheet mailed in advance; (3) a detailed daily report made out in exact accordance with its instructions. Salary and bonus payments are made only on the basis of requirements (2) and (3) in this clause, and are not due for time not spent on Company business, authorized vacations and holidays excepted, and payments will be withheld until each of these and other company requirements relating to the work agreed upon in developing the Salesman's territory markets has been fully complied with to the satisfaction of the Company.

6. That the Salesman will establish headquarters at _____, and it is agreed that no allowance for hotel or meals is to be made while the Salesman is working in his headquarter town and its suburbs.

7. Salesmen are forbidden to borrow money from customers or draw drafts without telegraphic authority from the Company. When expected funds are not received, they are to wire the Company early in the day for instructions.

8. That the Salesman will be responsible to the Company for the supplies and any money advanced to him, and that he will return such supplies and return or satisfactorily account for the expenditure of such money immediately on termination of this agreement for any reason.

9. That the Company shall pay the usual expenses allowed salesmen by the Company upon receipt of weekly expense accounts made out in accordance with instructions. Automobile expenses are to be allowed in accordance with the Standard Automobile Cost Plan, as set forth in detail on the rider to this contract. Expenses are estimated at $_____ per month. Should the actual expenses paid the Salesman during any calendar month exceed or amount to less than this figure, the bonus quota is to be adjusted one point for each $2 of variation between the estimated and actual expenses.

10. That the Salesman is not to become a stockholder, or partner, active or silent, of any feed merchant, or to engage in any other venture for profit, himself or in combination with others, directly associated with the merchandising of feed, or farming and livestock feeding operations, without express authority in writing from an officer of the Company. Where such authority is granted, it shall be limited to the existing situation and the activity shall not be increased or expanded in any way except by further written permission.

11. That all feeds and farm supplies shipped to, billed to, and paid for by customers in the Salesman's territory, while he remains actively in charge of said territory, shall be credited to him in calendar month periods, on the point basis then in effect for the Sales Division in which his territory is located.

12a. In addition to the Salary and expense allowance provided herein, the Company agrees to pay a monthly bonus for shipments of feeds and farm supplies made while the Salesman remains actively in charge of his territory, as follows:

_____ per point for the first 50 points in excess of a minimum quota of points shipped into the territory of the Salesman during calendar months.

_____ per point on the second 50 points in excess of quota during the month.

_____ per point on all points in excess of 100 points over quota during the month.

Any bonus paid to associates in the territory of the senior salesman is to be deducted from the total, as calculated on the above basis.

12b. Should the Company provide the Salesman with an Associate for work in his territory, the basic bonus quota is to be increased one point for each $_____ of added salary and expense, after the expiration of the agreed training period.

Bonus is payable at the end of the monthly period following the one in which the shipments were made.

Throughout this contract, the employee is designated as a salesman, and the

words "agent" and "representative" have been carefully avoided. The Salesman is not to use the words "agent" or "representative" to designate himself or his work.

Executed in duplicate this _____ day of _____
Nineteen Hundred and Forty- _____.

GOVE GRAIN COMPANY

_____
Sales Manager

_____
Sales Manager

In some cases the $2 point value used in setting the minimum quota was increased or reduced to take account of special conditions in particular territories. Similarly the point values used to determine the bonus could be varied.

Each month when bonuses were settled, a statement was prepared which showed the bonus earned and how it was calculated. Actual shipments in points for the month, the contract quota, the expense variation and resulting change in quota were shown, along with the points earned in excess of quota within each bonus bracket and the total bonus for the territory.

The salesmen participated in group insurance benefits and in a pension plan with other employees of the company, the outgrowth of an informal policy on pensions as a part of the management's general policy of taking care of superannuated employees. The company still paid the entire cost of the pension plan which was underwritten by an insurance company in 1944. Excerpts from the booklet presenting the plan to the employees follow:

July 1, 1944

To All Employees:

The Gove Pension Plan has been placed on an insured basis under a contract with the Magnanimus Life Insurance Company. The booklet which follows briefly summarizes the chief provisions of the insured plan. The Company's investment to date in the Gove Pension Plan is very substantial and in the years ahead it is expected to be much greater. While final approval and continuance of the Plan is subject to approval of the Bureau of Internal Revenue it should be understood that none of the money paid the Insurance Company can ever be returned to the Company's treasury.

DETERMINATION OF EARNINGS FOR INSURED BENEFITS

Each employee's monthly earnings, for purposes of determining PAST service benefits, and also for future benefits during the FIRST year of operation of the Gove Insured Pension Plan, will be based on the following:

1. Salaried employees (except salesmen)—Basic salary rate as of August 31, 1943.

2. Hourly employees—Basic hourly rate in effect on August 31, 1943, multiplied by 173.3 hours (40-hour week).
3. Salesmen (on the Sales Payroll)—Average monthly salary and contract commission bonus earnings for fiscal year ending September 30, 1943.

In *future years* benefits will be based on earnings as of October 1st of each year. In case of salesmen, the earnings class will be determined each October 1st on the basis of the average monthly salary and contract commission bonus earnings for the previous fiscal year.

In addition to all of the benefits included in the Insured Plan we are listing below a number of other benefits which are provided by the company but which are outside the Insured Plan. While it is the intention of the Company to continue all of these additional provisions and benefits, the Board of Directors reserves the right to change or withdraw them at any time without notice.

ADDITIONAL PENSION BENEFITS TO BE PAID BY COMPANY

For those having 20 years' service or more, and not covered by the United States Social Security Act at normal retirement age, *and* for women and salesmen from age 60 until the age at which such persons can become entitled to receive federal old age benefits (under the present U.S. Social Security Act that age is 65), the Company intends to add, from sources outside this Plan, enough monthly to each employee's accrued insured benefits to total 30% of that employee's last five years' average monthly earnings up to a maximum of $75 a month.

Those with less than 20 years' service will receive proportionately less.

. . . . . .

DEATH BENEFITS

There are no death benefits in the Gove Insured Pension Plan. However, it is the Company's intention to provide, at the Company's expense, $1,000 group life insurance protection for each retired employee who, at the time of retirement, is participating in the Company's group life insurance program.

GOVE PENSION COMMITTEE

OUTLINE OF THE PLAN COVERING THAT PART OF ANNUAL EARNINGS UP TO $3,000

1. *Effective Date.* The Plan will become effective as of July 1, 1944, with future service benefits retroactive to October 1, 1943.

2. *Eligibility.* All present active employees who meet the following eligibility requirements are eligible for the Plan on the effective date:

(a) Salesmen (on the Sales Payroll) and women—All employees who have completed three years or more of continuous service, or who have reached the 40th birthday, whichever occurs earlier, are eligible, provided they have not passed their normal retirement date, and provided they were first employed prior to the 55th birthday.

(b) Other employees—All employees who have completed three years or more of continuous service, or who have reached the 45th birthday, whichever

occurs earlier, are eligible, provided they have not passed their normal retirement date, and provided they were first employed prior to the 60th birthday.

Present employees not now eligible and employees entering the service in the future will become eligible for the Plan on the first of the month on which the above requirements are first met.

Membership in the Plan will automatically become effective on the date on which the employee is first eligible.

3. *Normal Retirement Date.* The normal retirement date under the Plan is the first of the month nearest the employee's 60th birthday for salesmen and women and nearest the 65th birthday for other employees.

The first payment of an employee's retirement annuity will be made on his retirement date, and subsequent payments will be made monthly thereafter as long as he lives.

With the consent of the Company, special arrangements may be made for (a) retirement on any date not more than ten years before the employee's normal retirement date or (b) commencement of annuity payments to be deferred to any date not more than five years after the employee's normal retirement date. In event of early retirement, payments will be on a reduced scale, based on age at actual retirement; in event commencement of payments is deferred, payments will be in the same monthly amount as would have been payable from normal retirement date.

4. *Amount of Retirement Annuity.* The total retirement annuity payable to each employee will be the sum of (a) the future service annuity and (b) the past service (supplementary) annuity to which he is entitled.

The future service annuity is described in Section 5 of this outline and the past service annuity in Section 6.

5. *Future Service Annuity* (after October 1, 1943). The future service annuity payable from normal retirement date will be based on the table shown. To determine the total future service annuity to which an employee is entitled by reason of membership in any class, multiply the monthly rate of annuity shown in Column 3A for that class by the number of years of membership in that class up to the age indicated (age 40 for salesmen and women, and age 45 for other employees), then multiply the monthly rate of annuity shown in Column 3B for that class by the number of years of membership in that class after the indicated age, and *add* the two.

For instance, if an employee other than a salesman or a woman is covered under the Plan, beginning at age 35, for 20 years in Class 1, and 10 years in Class 2, he will have the following *future* annuity:

Class 1—Age 35–45—10 yrs. at 0.50 = $ 5.00 per month
Class 1—Age 45–55—10 yrs. at 1.00 = 10.00 per month
Class 2—Age 55–65—10 yrs. at 1.50 = 15.00 per month

Payable at age 65 as long as he lives $30.00 per month
plus any *past* service annuity to which he is entitled, and
also plus any Social Security due him.

For employees who have completed the eligibility requirements on October 1, 1943, future service annuity credits commence on that date and for all other employees future service annuity credits commence on the first of the month coincident with or next following the completion of the eligibility requirements.

Class	Annual rate of earnings	Monthly rate of future service annuity for each full year of membership in class	
		Up to age 40 for salesmen and women, up to age 45 for other employees	After age 40 for salesmen and women, after age 45 for other employees
(1)	(2)	(3A)	(3B)
1	Under $1,500.01	$0.50	$1.00
2	$1,500.01–$2,100.00	0.75	1.50
3	$2,100.01–$2,700.00	1.00	2 00
4	$2,700.01 and over	1 25	2.50

Classes—Each employee's rate of future service annuity is based on his age and on his annual rate of earnings as determined by the Company, in accordance with the classes shown in the table given. If an employee's rate of earnings changes sufficiently to place him in another class, the change of class will become effective on the October 1st coincident with or next following the change in the rate of earnings. Similarly, the change in rate of annuity on account of age will become effective on the October 1st coincident with or next following the employee's 40th birthday for salesmen and women and coincident with or next following the 45th birthday for other employees.

6. *Past Service* (Supplementary) *Annuity* (Prior to October 1, 1943). It is recognized that our present older employees have not had the opportunity of building up annuity during their earlier years of service and will not have sufficient time to accumulate an adequate amount of annuity through future membership in the Plan alone.

Accordingly, the Company plans to purchase, by additional payments over a period of years, an additional annuity for each present employee covered under the Plan on October 1, 1943.

The annual rate of this additional annuity payable from normal retirement date will be equal to the following percentage of the employee's exact annual rate of earnings as determined by the Company for this purpose (omitting any earnings in excess of $3,000 a year) multiplied by the number of full years of continuous Gove service completed prior to October 1, 1943 (omitting the first three years of service prior to age 40 for salesmen and women and prior to age 45 for other employees):

A. Salesmen and women—½% for each year of such service regardless of age, plus an additional ½% for each year of such service subsequent to the 40th birthday.

B. Other employees—½% for each year of such service regardless of age, plus an additional ½% for each year of such service subsequent to the 45th birthday.

For instance, if an employee other than a salesman or a woman entered the service at age 27 and his earnings for purpose of past service annuity under the plan were $2,000 a year at age 55, he will have purchased for him the following *past* service annuity:

Age 27–55—28 yrs. less 3 or 25 yrs. at ½% × $2,000	$250 per yr.
Age 45–55—10 yrs. at ½% × $2,000	100 per yr.
Payable at age 65 as long as he lives	$350 per yr.

plus his future annuity (after October 1, 1943), and also plus any Social Security due him.

7. *Contingent Annuitant Option.* An employee may elect to have his annuity payments commenced at his normal retirement date on an appropriately reduced scale, with the same or specified smaller payments continued in event of his death after normal retirement date to a person designated by the employee to receive such payments for life (the contingent annuitant). This option may be exercised without medical examination at any time before five years prior to normal retirement date; no medical examination will be required, however, of any employee, regardless of age, who exercises the option prior to October 1, 1944. Further information concerning this option and the effect of its election upon other provisions of the Plan will be available upon request.

8. *In Event of Termination of Employment.* The Company's contributions on behalf of an employee cease upon termination of his employment.

Vested Right—If the employee, on termination of employment, has reached his 55th birthday and has also been a member of the Plan for five years or more after October 1, 1943, he will be entitled to receive at normal retirement date the full amount of *future service annuity* purchased for him to date of termination of employment plus any *past service annuity* he may be entitled to *if such past service annuity has actually been fully paid for by the Company at that time* (see next paragraph).

It is the Company's intention to purchase the past service annuity by a series of annual payments over a period of years. As each employee's past service annuity is purchased, he will receive a "rider" to attach to his certificate indicating such purchase.

Reemployment—If an employee's service is terminated, and if he is later reemployed, he will be considered as a new employee for all purposes of the Plan.

9. *Temporary Absence Due to Sickness, Injury, or Leave of Absence.* If an employee is temporarily absent from active duty but receiving full remuneration from the Company, retirement annuity credit will be allowed just as if he were at work.

No retirement annuity credit will be allowed for any period during which an employee is temporarily absent and receiving reduced remuneration or no remuneration from the Company. This will not in any way affect retirement

annuity credit previously accumulated. Retirement annuity credit will commence again when full remuneration is resumed.

10. *Contract and Certificates.* This brief outline cannot contain the full details of the Plan as set forth in the master contract issued to the Company by the Magnanimus Life Insurance Company. The Plan, and all descriptions and outlines of the Plan, are governed in every respect by the master contract.

Each employee will receive a certificate issued by the insurance company outlining the benefits provided in the master contract.

11. *The Future of the Plan.* The Company hopes and expects to continue the Plan indefinitely, but must necessarily reserve the right to change or discontinue it at any time.

The provisions of the master contract cannot be changed in any way without the Company's consent prior to at least September 30, 1948.

No change or discontinuance for any reason will adversely affect the terms governing the payment of any part of the retirement annuity actually purchased prior to the date of such change or discontinuance.

These Illustrations Include Anticipated Monthly Payments of

(a) The Magnanimus Life Insurance Company, called "Gove Insured Pension" and paid in accordance with the Plan described in this booklet.

(b) Supplemental pensions to be paid by Gove from sources outside the Insured Plan under conditions described in the Pension Committee letter and headed "Additional Pension Benefits to Be Paid by Company."

(c) Primary U.S. Social Security payments, if the employee is covered, to be paid by the United States at age 65, but not including any additional payments which might be made because of dependents. U.S. Social Security benefits are *estimated* in all these examples.

They are based on the assumption that both the Company Plan and the Social Security Act will continue without change or modification.

. . . . . .

Salesman. Began October 1, 1923, age 25. On October 1, 1943, was 45 and had made $3,600 per year ending 9-30-43. Made more later but not less. (Note: for purposes of Gove Insured Pension, Gove Supplemental and U.S. Social Security earnings in excess of $3,000 per year are omitted.)

Service	Per month	
	Age 60	Age 65
Past—15 yrs. less 3, or 12 yrs. × ½% × $250 per mo.	$15.00	$15.00
5 yrs. × 1% × $250 per mo.	12.50	12.50
Future—15 yrs. × $2.50 per mo. per yr. (Class 4)	37.50	37.50
Gove Insured Pension	$65.00	$65.00
Gove Supplemental Pension (to make 30% of $250)	10.00	
Estimated U.S. Social Security (1-1-37 to 10-1-58)	..	43.10
Payable until age 65	$75.00	
Payable for life after age 65	.....	$108.10

CASES IN BRIEF

1. The sales manager of Vannah & Company, Mr. Everett Wilton, had long wished for a salesmen's compensation plan which would provide some incentive for a thorough performance of nonselling duties. The salesmen had been paid on a salary-commission plan but beginning with the company's fiscal year, Mr. Wilton proposed to pay the salesmen, in addition to their usual earnings, a bonus for the performance of nonselling duties.

The company manufactured dairy machinery including bottle fillers and cappers, pasteurizers, bottle washers, churns, and coolers. It also distributed all types of dairy supplies, such as disinfectants, measuring cups, milk racks, cans, bottles, bottle caps, and pails.

Vannah & Company was created in 1925 by merging five smaller companies. Sales steadily increased until in 1944 they were $21,000,000, and at the end of World War II the company had a backlog of orders for dairy machinery which would require operation of full plant capacity for nearly 2 years. With principal offices in Chicago, the company had 21 sales offices in the larger cities throughout the United States, employing a total of 173 salesmen and 36 distributors in the smaller cities.

The salesmen in each regional sales office reported directly to the manager of that office. Each salesman was trained to sell all products of the company, although some were inclined to favor one group of products over another. The largest accounts were of course the large dairy concerns, but salesmen also called on many farmers in the dairy business throughout the year.

Salesmen of the company were consulted in the fall of 1945 for suggested changes in the plan of compensation. Many were opposed to the regressive rate used by the company, so it was decided under the new plan to use the same percentage of commission regardless of the volume of gross profit earned. Ninety-five per cent of the company's salesmen earned between $20,000 and $55,000 of gross profit for the company annually. Under the new plan, salesmen earning less than $40,000 gross profit would receive slightly less compensation than under the previous plan, and those over $40,000 would receive more. A schedule had not yet been established indicating the amount of commission in relation to the number of gross profit credits, but it was decided that the commission should increase at a fixed rate in proportion to gross profit credits. In other words, the rate of compensation per credit unit was to remain constant irrespective of the number of gross profit credits earned.

Although this plan had been quite satisfactory, Mr. Wilton wanted to provide some sort of bonus for nonselling duties. Since he had been intending to give a general increase in pay to the salesforce, it was felt that this bonus would also serve that purpose. After some discussion with other executives, the outline for a bonus plan was devised. The salesmen were informed of its general nature, but it was agreed to try it experimentally for 6 months before announcing the details. At that time, nonselling duties were to be graded on five criteria—technical knowledge, territorial characteristics, self-organization, service, and dependability—by the branch office heads of the engineering, service, sales expediting, credit and accounting, and auditing departments. Then, in conference with the branch manager, a compromise score was to be arrived at for each salesman.

The criterion of "technical knowledge" was the success with which the salesmen became acquainted with the technical aspects of dairy machinery. Officials thought that it was very important for the salesmen to understand the construction of the machinery, its operation, and ways of repairing it. For a 100% performance, on

the basis of this criterion, a salesman would be awarded 1,500 points.

The territories differed considerably in characteristics; some were sparsely settled and required much travel and expense, while others were thickly settled and in large dairy areas. Officials thought that salesmen having less favorable territories should be compensated for this disadvantage, and in an extremely unfavorable territory a salesman would receive as high as 1,000 points.

Company executives also considered self-organization of a salesman a valuable measurement of the performance of his nonselling duties. This included the thoroughness of records, efficient use of time, punctuality in replying to correspondence, and other habits which indicated a well-organized manner of doing business. A salesman who was considered perfect in this received 700 points.

The fourth criterion was the service which a salesman gave his customer. Did he aid in the installation of machinery? Did he revisit to check the operation of the machine? Did he make small repairs? In other words, this was a test of the extent to which a salesman took advantage of opportunities to cultivate good will for the Vannah company through service to customers. A salesman could receive as high as 400 points for this criterion.

Finally, the salesman was graded on the dependability with which he did his work. Did he follow instructions carefully? Did he call on small accounts as faithfully as on large accounts? If a salesman impressed company officials as being a reliable and dependable employee, he could earn, in addition to his previous scores, a maximum of 30% of his total scores for the four previous criteria.

A "normal" total for all criteria was 1,000 points. Since this bonus was for exceptional performance, 1,000 points was deducted from the total score. The remainder was the final score, for which the company tentatively agreed to pay $1 per point. Officials expected that in practice the annual bonus would average between $1,000 and $2,000 and that $2,500 would be about the maximum bonus.[1]

The salesmen were to be scored every 6 months. If a salesman was dissatisfied with the amount of his bonus, he could present his grievances to the branch manager who would review the scoring with the five department heads in the presence of the aggrieved salesman.

2. The York Corporation manufactured and installed and serviced refrigeration machinery, ice making machinery, air conditioning equipment and systems for industrial and commercial use, and heat exchange apparatus for operation in dairies. The company generally sold major equipment direct to users but its line of refrigerators and air conditioning units was distributed through franchised distributors and dealers. The types of applications which the representatives were called upon to design and install in connection with direct sales covered a wide range as, for example, brewery refrigeration, food processing in quick freeze plants and numerous other types of refrigeration and air conditioning problems. In 1951 the company's sales organization consisted of about 100 industrial sales engineers and 30 to 40 salesmen selling to appliance dealers and distributors. Over the period of the war, the number of the salesmen had been reduced while the sales volume of the company had risen,

[1] Sample Score Sheet for Bonus for Performance of Nonselling Duties:

Salesman: John Smith
Branch: Albany
Period: December 1, 1945, to May 31, 1946

	Points
Technical knowledge	900
Territorial characteristics	300
Self-organization	560
Service	320
	2,080
Dependability 24%	499
	2,579
Deduct "normal"	1,000
Bonus	$1,579

with the result that the average sales volume per salesman was about triple prewar levels. The company felt it had achieved a better salesforce with more competent men, more highly paid, and more experienced. The company had for a time paid its salesmen on a straight salary basis, but in the thirties had adopted a bonus plan which provided for payment of bonus on sales credits in excess of an assigned quota. Expenses were paid on a voucher basis. The plan was found objectionable by the salesmen because of the great fluctuations in earnings and also because of the difficulties encountered in dividing sales credits when more than one salesman participated in installation. Following the war, the company undertook a complete revision of its compensation. A new plan was developed by a committee of three district managers and four home office executives. After much study and consultation with different persons the committee presented a plan combining salary, commissions up to a fixed limit, plus participation in an unlimited pool of all commissions earned above this fixed limit. A base monthly salary was established within a graduated range of rates, while commissions on sales were computed at rates which varied somewhat according to whether the buyers were industrial buyers or distributors. The amount of commissions above salary paid to each was to be limited to $1,500 and any commissions above that sum were to be put into a commission pool to be divided among all sales personnel covered by the plan in direct ratio to the individual total salary and commission paid to participants.

Was the plan a sound one?

Would it avoid extraordinarily low earnings due to factors not under the salesmen's control on the one hand, and windfalls on the other?

3. The following is taken from the sales manual of Curtice and Nye Company, a large manufacturer of men's work garments, located in the Middle West.

CONTRACT

The company neither requests nor accepts a contract for sales services, it having been demonstrated that contracts are worthless to all parties concerned.

Our sales plan is not complicated. Remuneration is based entirely on results. The house is anxious to retain the services of a producer; one who follows the rules of the house, as outlined in this booklet.

If results from a territory are not satisfactory to the company, it reserves the right to make any change that is deemed advisable. They may reduce, enlarge, or change boundaries, transfer to another field, or remove entirely from the payroll.

It is expressly understood that the house is not bound by any written or verbal agreement, entered into by two or more individuals connected with the firm, which conflict in any manner, shape, or form with this arrangement.

A salesman, upon leaving the employ of the company, either of his own volition, or at the request of the company, retains his interest in any and all orders which have been secured by him prior to the time of his removal.

Commissions will be due and payable according to the outline under the subject, "Salesmen's Commissions."

Concurrent with the time of his removal, he will cease to have any interest in or participate in further business secured from the territory or from any business secured anywhere, which might be due to his efforts while in the employment of the house.

Is the position of the company as to contracts with salesmen sound?

Is it generally advisable to have written contracts with salesmen?

4. Mr. James F. Cox, sales manager of Knowles and Nichols, Inc., a paper manufacturer, was dissatisfied with the company's system of compensating salesmen. Established in 1728 and incorporated in 1801, the company employed 8 salesmen

and had 400 active accounts with annual sales of over $3,000,000 in 1945. Knowles and Nichols had a few jobber accounts in New York, but 90% of its sales was made directly to publishers, printers, and convertors. Seventy-five per cent of its dollar sales volume was sold at wholesale discounts to the larger customers, the remaining 25% being sold at list prices to printers and small publishers.

The salesmen were paid on a commission basis with a drawing account which was arbitrarily set in conferences between the sales manager and the salesmen. It was generally about 75% of annual earnings and could be drawn upon weekly. On the wholesale business, the salesmen received a 1% commission on sales up to $50,000 and 2% on sales over that amount. For sales to the retail trade, the company paid salesmen a 5% commission in the local area and 6% in other territories. Salesmen paid their own travel expenses, and the lower rate was paid for local sales because of the lower travel costs involved.

In the fall of 1945, some members of the industry were predicting that the high prices and heavy demand would hold for at least 2 years. Mr. Knowles and Mr. Cox were anxious to devise some new compensation plan which would be flexible enough to be adaptable to abnormal business conditions and yet provide a suitable incentive for sales effort. They were interested in giving the salesmen the security of a guaranteed minimum wage and in protecting the company from the effects of windfalls and inflationary conditions.

Partly because of the increase in prices of paper but more particularly because of the paper shortage, it was possible for some salesmen to shift sales in large quantities to high-commission types of account. The consequence was that the compensation of three men in 1947 ranged from $15,000 to $28,000. Two other men received $7,000 to $9,000; two others $5,000 to $7,000; and the last salesman about $4,000. The directors of the company, upon looking over the lists of incomes, were disturbed because at least two salesmen were earning more than the principal officers of the business.

What should be done?

5. The Rockfield Radio Company was a large manufacturer of long- and short-wave radio receiving sets. The company maintained 30 salesmen throughout the country. The company intended that its salesmen should not merely sell radios to distributors but should also assist the dealers to promote the product. In addition to selling, each salesman had three other duties: (1) He was to act as the contact man between the company and its distributors, interpreting the sales plans in use; he was to be thoroughly conversant with all elements in a promotional campaign and was to report reactions of distributors. (2) Each man was to educate the dealers' salesmen in the best methods of selling radios. (3) Contacts were to be maintained with the key dealers and smaller dealers in the market in order to keep both the distributors and the company fully informed of any valuable sales information from the field.

For some time, the sales manager of the Rockfield Radio Company had known that a majority of the company's salesmen were overstocking wholesalers in an effort to obtain larger commissions. On numerous occasions, the wholesalers had found themselves at the end of the selling season with an excessive inventory which often had to be liquidated at a loss. The sales manager was of the opinion that such a procedure was detrimental to the company's relations with its distributors; and, in an attempt to correct the situation, he introduced a new compensation plan. Under the plan, the salesmen were to be paid on distributors' sales to retailers rather than on sales to the distributors. It was thought that this would cause the salesmen to exert greater energy toward increasing distributors' sales and toward aiding them with missionary and promotional work. He proposed to introduce a new compensation plan.

6. A company sold X-ray equipment to physicians and industries through representatives in various territories. These

sales representatives were regarded and treated as independent contractors. They received straight commissions on sales, no drawing account was furnished, and the unpaid accounts of buyers were charged to them.

What were the advantages and disadvantages of such a plan?

7. The Hallett Company manufactured and sold nationally advertised food products. A general sales manager, located at the home office, was in charge of an organization of approximately 150 salesmen, who visited grocers and solicited orders to be shipped through the wholesaler whom the retailer designated. The salesforce had always been paid on a straight salary basis, plus travel expenses.

For purposes of sales control, the United States had been divided into 52 sales territories, ranging in size from a single city, such as New York, to two or three states. In territories where several salesmen were employed, one salesman was usually designated as a territorial manager. Sales territories were grouped into 17 districts, each under the direction of a district sales manager, who resided in the principal city in the district The number of salesmen under each district manager varied widely, depending on the territories. Because of the need for missionary work and the impossibility of securing an adequate basis for compensation through a straight commission plan, the proposal was finally made by the general sales manager that a dividend plan be developed. He proposed that, for every case of the products sold, a fraction of a cent be placed in the dividend fund, to be divided four times a year among all the salesmen employed by the company. As before, salesmen were to be paid salaries according to their ability and the length of their term of service. Each salesman and each territorial and district manager were to share in the dividend fund in proportion to the amount of salary that they received. For example, if all salaries for a period amounted to $100,000 and A's salary for this period was $500, A should receive 1/200 of the dividend fund.

Should the plan have been adopted?

8. A company selling men's furnishings found that, on the average, its salesmen were securing substantially larger incomes than the salesmen of a successful competitor. Such incomes had kept pace with the increase of the general size of the business and a commission plan based upon the customary rates prevailing in the industry. The president of the company, looking forward to a buyers' market, objected to the maintenance of the rate of 5%, pointing to two companies which had cut the 5% rate to 3%.

Under what conditions could such cuts in rates be made successfully?

9. In a midwestern shoe company in 1950, three salesmen received larger incomes than the three principal executives of the company. The executives of the company asserted that this was not a miscarriage of the compensation plan, that these men had done extraordinary jobs, and that by securing the volume of business on a commission basis they had contributed to the whole company in proportion and were entitled to the larger income even though they did exceed salaries and bonuses of principal executives.

Do you agree?

10. During the war, high tax rates and other factors led to considerable freedom in the granting and spending of expense allowances. Furthermore, in some cases, the restrictions on increases in salaries led to greater liberality in expense accounts as a means of offsetting some of the dissatisfaction with frozen salary rates.

Was it sound to consider expense allowances as a part of income in compensation of salesmen or sales executives?

What implications were involved in such policies?

11. Do depression conditions affect the companies whose salesmen are paid on a commission basis? How does depression affect the companies whose salesmen are paid on a salary basis?

12. To what extent is the selection of a plan for payment of salary dependent upon (1) the customs of other firms in the same line, (2) the nature of the busi-

ness, (3) the financial business of a specific enterprise, (4) the character of the salesmen?

13. Should a manufacturer of calculating machines selling direct to users through 100 salesmen, each assigned exclusive territories, provide definite rules for division of commissions upon sales made to national organizations with branches in different territories? Sales might be made in one territory and shipments made to another.

14. Since the ultimate purpose of business is to secure net profit, why should not the plan of compensating salesmen on the basis of net profit on the sales which they secure be universally adopted?

15. A furniture manufacturer, who employed approximately 5,000 persons, contemplated the introduction of a profit-sharing plan whereby a dividend would be paid to all employees on the basis of payroll at the same rate paid to the stockholders on the common stock. The salesmen were to be treated the same as any other employees. They had been paid by commissions on sales.

Would the profit-sharing plan be effective as a means of stimulating the salesmen to put forth their best selling effort?

C. SUPERVISION AND CONTROL OF SALESFORCE

It has been pointed out repeatedly that the sales executive must to a much greater extent than in production work deal with intangibles. In all branches of business, the employer-employee relationship presents problems which must be solved for smooth sales operations, but it is also clear that seller-dealer and seller-user relationships are of vital concern to the sales department because its responsibilities can be met only by user and dealer consent to buy, not only initially but repeatedly. Consequently, the employer-employee relationship in the sales department presents problems which, although falling into the same general categories of other departments of business, have special characteristics growing out of the nature of the salesman's work and the conditions under which he operates. Human relations are of first importance in the sales department; but unfortunately the average sales manager has not accorded the study of human problems a first place in his thinking.

Two reasons may be assigned in particular for the need for supervision and direction of the salesman in his work. The first is the fact that the salesman operates independently, frequently a long distance from the sales manager; he is the representative of his house, often the only member of the organization with whom the customer comes in personal contact. Since the selling process is being effected more and more by a combination of different forms of selling effort, the work of salesmen is supplemented by advertising, by special equipment furnished to him, and by the development of other forms of selling effort. A salesman, therefore, benefits by these other efforts in proportion as his own efforts are correlated with them. In the second place, a salesman does not and cannot know the exact work which he should do in order best to serve himself and his employer. Conditions change rapidly. A salesman is not different from other men in his lack of willingness to drive

himself to work for his own best advantage. The supervision of a superior officer is of benefit both in furnishing incentive to work more regularly and in helping to make that work more productive.

Supervision over salesmen may be exercised either by personal contact or by correspondence and reports. It is desirable in supervision to furnish some personal contact with the sales executive who can help and inspire salesmen. The supervision, furthermore, should not require an excessive amount of clerical work in making reports and carrying on correspondence. The sales manager should secure from his contact the information which he really needs for direction, although in the interpretation of that information he must endeavor to be fair and just when either favorably or unfavorably criticizing the work of the salesman.

Personal supervision is the chief and most effective method of directing the work of salesmen. It may be done by the sales manager himself, by branch managers, or by special supervisors, or sales "foremen." However, personal supervision is expensive and, as organizations grow larger and men are scattered through wider areas, it becomes difficult to furnish it in the quality and quantity desired at reasonable cost. Consequently, resort must be had to supplementary means of supervision and cooperation.

Next to personal contact with members of the salesforce, supervision through correspondence is the most common means of giving information to and securing information from salesmen. Most sales organizations provide definitely for frequent letters to the salesmen, for purposes of both information and stimulation, as part of the supervisory plan. Though correspondence may be used as an effective supplement, it is frequently made the basis of an artificial type of stimulation and often misused. As in personal contact, correspondence permits the sales manager to vary the nature of his contact in such a way as to fit the needs of particular situations. He may display his leadership and his ability to secure the cooperation of his men through correspondence in some instances as well as by means of personal contact.

Daily, weekly, or even monthly reports constitute a third means whereby the sales manager keeps in touch with the salesmen. While occasionally salesmen are expected to make only verbal reports at the end of each trip, some formal type of report is usually required. The conditions which will determine the use of written reports are the extent to which the salesman is away from headquarters, the length of his trip, the distance of his territory from sales headquarters, and the importance of having information for decisions in the sales department. Personal preferences and ideas of the sales manager and the number of salesmen with whom he has to deal will also influence report policy. Requirements for report supervision are very similar to the general requirements for control systems in any phase of business. Adequacy and economy of time and effort needed to secure useful information are prime desiderata.

It becomes apparent that only a few of the many phases of the problem of managing salesmen may be mentioned here. One of the most important phases relates to the measurement of salesmen's effectiveness; another to that of stimulating effort through various devices. As to the first, it is obvious that every salesman's work must be measured by his superiors. He must be kept in the same position, promoted, demoted, or dismissed. Adjustments of salary or commission must be made from time to time. Comparisons must, therefore, be made with the required standards of performance. Careful sales management requires that these standards be consciously thought out and carefully set up. While fully dependable standards are difficult to set up, the recognition of inadequacy will at least constitute an influence against the type of hasty judgment which is so common in the appraisal of salesmen.

The fact that a salesman is more or less his own master while on the road, that he lacks the direct incentive of working with others whom he may seek to excel, and that the salary method or many other compensation methods may not furnish sufficiently strong motivation, lead to the need for additional stimulation and incentive so that a salesman may do justice to himself by doing the best that he can, and so that the work of all the salesmen may be carried on at a minimum of cost in comparison with results. This incentive may be furnished in a number of different ways:

1. Compensation plans, as pointed out above, may be adjusted to furnish special incentives for the performance of particular tasks.
2. The stimulation to greater effort may come through letters and correspondence.
3. The sales manager may hold conferences with salesmen or have more elaborate conventions at which salesmen secure both training and incentive.
4. Devices may be used to furnish an element of rivalry between individual salesmen, between groups of salesmen, and between a salesman's own performances at different periods. One form of such rivalry is illustrated by the use of sales contests.

Stimulation by means of sales letters, to be effective, must show that the writer knows the situation in the field; they must offer real help or real inspiration. If a letter is written by a person in whom salesmen have no confidence, its good effects will be slight. The letter as a means of stimulation is a dangerous tool, because (1) many sales managers cannot write letters which express what they intend to express; (2) letters may be received under conditions which exaggerate or minimize the effect of what is written.

Conferences with the sales manager and with fellow salesmen furnish many possibilities of benefit and instruction. Two chief classes of conferences may be distinguished: those which are held at frequent intervals, sometimes weekly or monthly, for the purpose of bringing salesmen together to discuss current problems or plans for the future or the results of past experiences, and those more elaborate conferences or conventions held at less frequent

intervals to bring together salesmen from a wider area, in some cases from the entire United States, in a few cases also including foreign countries. The purposes of the two types of conference vary somewhat, but in general they may be classified as stimulation, instruction, and control.

The sales contest is a device through which the sales manager seeks to utilize the spirit of rivalry, making use of the desire to excel to furnish an incentive to better and more satisfactory effort on the part of members of the salesforce. More specifically, contests may be used for a number of different purposes: to increase sales on an entire line, to launch and introduce new products, to increase the number of calls and demonstrations, to obtain new accounts. An incidental purpose may be that of ascertaining the real capacity of the salesmen. The length of a contest may vary from a week to a year, but most of them range from 1 to 3 months, and they are quite often dramatized by setting up goals of volume in the form of a game to stimulate the desire for distinction and the desire to stand well with one's fellows. Rewards in prizes may be offered which in themselves stimulate effort on the part of certain men.

There can be no doubt that the contest under certain conditions may be desirable both from the viewpoint of the salesmen and from that of the house. Like most devices, there are conditions under which they should not be used. There are disadvantages which at times may outweigh usefulness. Contests may lead to jealousy among salesmen rather than healthy rivalry, to charges of unfairness, to overstocking or underservicing of the customers. If contests are used wisely, they may be made to help both the salesmen and the company using them; if they are made a substitute for good direction and are used to compensate for the ineffectiveness of the general sales plan or for able direction by the sales manager, they are to be denounced.

82. WECO PRODUCTS COMPANY. Time and Duty Analysis of Salesmen's Activities

In the spring of 1940 Weco Products Company executives approved a plan to institute a time and duty analysis among the firm's salesmen. The idea for such a plan arose from the desire of sales executives to learn more about the utilization of salesmen's time. Not only did they want to find out what proportion of time was spent on selling activities as compared to nonselling, but they also wanted to learn the best methods of selling products, how the men presented special offers to customers, and how some of their nonproductive time might be made more productive. Several advantages might be realized from such a study. If nonproductive time could be analyzed and reduced by better planning, sales results might improve accordingly. In addition, a time and duty study would serve as a training and job analysis tool which would assist sales personnel in organizing meetings, setting up field controls, and defining the salesman's job for training purposes. Finally, executives believed that those who were making the field study would, at the same time, be able

to keep a check on the company's competitive standing and thus keep management alert to competitors' progress.

The Weco Products Company was a sales organization distributing the following drug sundry items: Dr. West's "25" and Miracle tuft toothbrushes, Dr. West's Miracle tooth paste, Lily Daché and Gainsborough hair nets, Gainsborough powder puffs and KEC handkerchiefs. The lines of toothbrushes, sold in two price ranges, represented over 50% of the company's $7,000,000 annual sales volume. Merchandise was sold to 165 wholesalers throughout the United States by a force of 40 salesmen operating in exclusive territories, laid out on a trading area basis with the county line serving as a boundary. Compensation comprised a salary, expenses, and annual bonus which was based on a quota.

Salesmen had three specific functions: (1) selling to wholesale druggists, (2) selling to chains and department stores, and (3) writing orders for retailers which were turned over to Weco's distributors (turnover business). The bulk of a man's time was taken up in the promotion of "special deals" which were offered by the company successively for periods of three or four months. Whenever the sales department planned a new deal, the sales manager called a meeting at the home office which was attended by the entire salesforce. The deal was explained, men were given promotional material and literature, and were briefed on sales approaches and selling points which might be used in announcing the offer to the trade. The salesmen then returned to their territories and solicited all wholesale customers, explaining the new deal and making arrangements to hold similar meetings with the wholesaler's salesmen. After the men had organized schedules of appointments with wholesalers, they concentrated on selling chains, department, and retail drugstores. In the latter case, the job was to convince buyers of the value of the deal so as to pave the way for the wholesaler's representatives; Weco sold direct to chains and department stores.

The salesmen sold these deals to the wholesaler first, covering in detail with the latter's salesmen the methods of promoting the deal to the retailer and his clerks. He next stocked the wholesaler with sufficient goods to start the drive, then proceeded to show wholesale salesmen, demonstrating with two or three of the accounts in each man's territory, how to sell the offer. After the drive was under way and all wholesalers and their representatives had been thoroughly instructed, Weco salesmen devoted their time to direct (chain and department store) and turnover business. A typical deal which the company offered was described by a sales official as follows: the retailer might have his choice of purchasing a display case with an order of three gross of toothbrushes and payment of $25, or of placing an order for five gross and receiving the case without charge. The stipulation was made, however, that one-third of the cabinet would have to be used for Weco brands of toothbrushes.

The first time and duty analysis was started in the summer of 1940 and was conducted by one field man who spent from three days to a week with 10 of the firm's salesmen. The types of interviews studied were retail visits involving turnover business. The first step was to classify the various activities which made up the selling function and then to time each operation as the man made his calls. The sales routine was thus broken down as described in the chart following, each operation timed, and the average time for all salesmen listed so that individual comparisons might be made.

Chart I. Breakdown of Selling Functions Together with Average Times Secured on Time and Duty Analysis—1940

Breakdown of Selling Routine	*Avg. Time, Minutes*
Selling time total	10.13
Printed matter	3.37
Samples	2.62
Printed matter and samples	0.62
Without material (or stock checking)	3.52
Nonselling time total	54.83
Display installation	0.53
Instructing clerks	0.31
Awaiting interviews	6.07
Broken interviews	7.08
General conversation	7.93
Miscellaneous *	8.93
Travel	23.93
Total interview minutes †	64.96
Idle time ‡	7.36

* Writing orders, telephone calls, waiting for wholesale salesmen to make sales, gassing car, etc.

† Total interview time consisted of the time elapsed between the salesman's arrival at one store and his arrival at the next.

‡ Meals and personal time.

While the field man conducted the study, he made notes on each performance, citing those points at which a man was weak as to use of time or in selling effectiveness, and mentioning the strong points about his approach so that these might be compared with sales results.

Another step in the time and duty analysis was to keep a record during each interview of the items sold, those which were mentioned, and the volume of merchandise sold. From this information was computed the salesman's dollar volume per selling minute and per interview, the resulting figures giving an indication as to the man's selling efficiency. Also, the field man recorded the number of items which the salesman mentioned during the interview and in his final tabulation computed the number of mentioned items sold as a percentage of the total. This figure indicated, in many cases, the effectiveness of the sales approach and selling points used. Exhibit 1 presents a complete analysis of one of the salesmen studied together with a comparison of his performance with the average, high, and low for each operation.

Exhibit 1. Weco Products Company. Time and Duty Analysis of Frank B. Floyd—1940

Basis of Comparison. The observer worked with Mr. Floyd three days, July 22, 23, and 24, 1940. On these days the salesman made a total of 44 calls, secured 25 interviews, and wrote 11 orders amounting to $321.33. These calls were made in Atlantic City, New Jersey, Camden, New Jersey, and smaller towns between the two cities.

The averages are based on data gathered while observing 10 salesmen for a total of 30 days. All data (except average daily sales, number of interviews, and hours on duty) are broken down into minutes and dollars per interview. Only when the salesmen talked to the buyer and attempted to sell the line was the call considered an interview.

Time. Floyd spends less time per interview in actual selling than any other man studied. His selling time of 5.32 minutes per interview is almost half the 10.13 minutes selling time of the 10-man average. Since his total interview time is not proportionately lower, the selling minutes are only 11.4% of the total interview time Selling without material accounts for over half Floyd's total selling time and 6.4% of his total interview time.

In the nonselling time, Floyd is below the average in all nonproductive activity with the exception of travel. The per cent of total time devoted to travel of 53.5% is abnormally high. This may be at least partially explained by the fact that there were an unusually large number of calls in which interviews were not secured. The distance and travel time were therefore increased between interviews.

In the productive nonselling time of installing displays and instructing retail sales clerks, Floyd is somewhat better than average on the basis of per cent of interview time. However, in actual minutes spent performing these functions, his time of 0.68 minutes per interview is below the average of 0.84 minutes

Selling Efficiency. Floyd's ratio of sales to attempts is much higher than average. He mentions 2.4 items per interview and sells 0.9 items per interview, selling 37.5% of the mentioned items. However, because the items sold have a lower selling price and the orders per interview are fewer, his sales per interview of $12.85 are below the average of $21.26. Nevertheless, because Floyd sells faster than the average, his dollar volume per selling minute of $2.42 is $0.07 greater than the average.

Strong Points. The salesman has a certain ease of manner and selling which enables him to sell a relatively large portion of the line quickly. He seldom uses a complete or involved sales story.

Weak Points. Floyd sometimes used negative suggestion, and once he described a competitor's display case which the retailer had prominently displayed as "one of the poorest displays on the market."

Exhibit 1. (*Continued*)

Time in Minutes per Interview and per Cent of Total Interview Time for Each Operation

	Floyd		Average		High for each operation	Low for each operation
	Time, minutes	% of total interview time	Time, minutes	% of total interview time		
Selling time total	5.32	11.4	10.13	15 6	19.98	5.32
Printed matter	0.99	2.1	3.37	5.2		
Samples	1 20	2.6	2.62	4.0		
Printed matter and samples combined	0.12	0 3	0 62	1.0		
Checking stock *	3.01	6.4	3.52	5.4		
Nonselling time—total	41.41	88 6	54.83	84.4	121.31	32.04
Display installation	0.20	0 4	0.53	0.8	1.69	0.02
Instructing salesclerks	0 48	1.0	0.31	0.5	0.58	0.08
Awaiting interview	2 84	6.1	6 07	9.3	14.82	2.54
Broken interview	4 22	9.0	7.08	10.9	25.47	1.45
General conversation	3.53	7.6	7.93	12.2	23.13	3.49
Miscellaneous	5 14	11 0	8.98	13.8	14.62	4.03
Travel	25.00	53 5	23.93	36.9	43.25	13.28
Total interview minutes	46 73	100 0	64.96	100.0	141.29	40.08
Idle time	2 38		7.36			

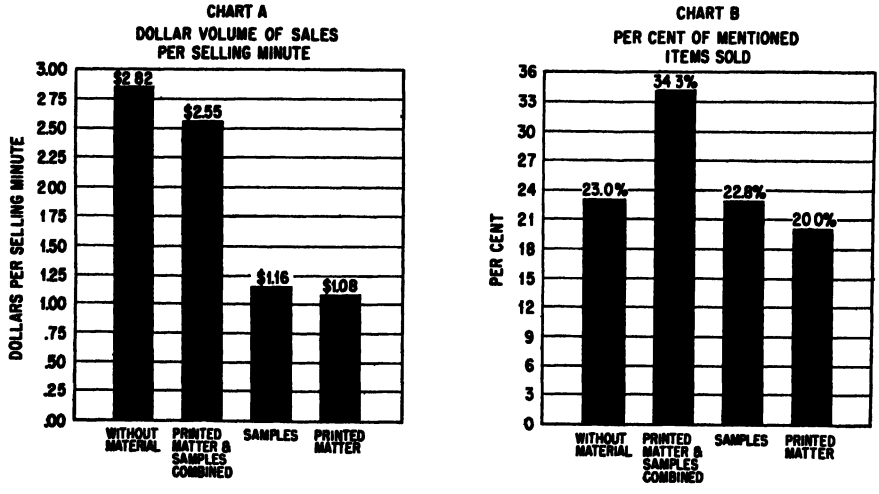
Comparative Table of Salesman's Work

	Floyd	Average	High for each operation	Low for each operation
Items shown or mentioned per interview	2.4	2.8	4.4	1.8
Items sold per interview	0.9	0.73	1.5	0.3
Per cent of mentioned items sold	37.5	26.1		
Dollar volume per interview	$ 12.85	$ 21.26	$ 34.61	$ 8.42
Dollar volume per selling minute	$ 2.42	$ 2.35	$ 4.85	$ 1.05
Average daily sales	$107.11	$141.17	$202.45	$75.78
Average number of interviews per day	8.3	7.3	12.0	4.0
Hours on duty per day	7.5	8.1	10.6	6.2

* The term "checking stock" was used interchangeably with the term "without material." The former was a term referred to by the wholesale trade as a method of selling.

One of the most important findings of the 1940 analysis pertained to the routing of salesmen. Prior to the study, Weco had not routed its men for several reasons. First, sales executives believed that the men were doing this job themselves; furthermore, they felt that such an attempt to control their activities would be resented. Management assumed that salesmen would realize travel time was unproductive and that the time spent in going from one account to another should be reduced to a minimum. However, results of the study revealed that as much as 50% of a man's total interview time was spent in travel, while the average was 37%. Another important discovery resulted from the analysis of selling methods. This finding showed that there were four principal selling methods used by the salesmen: (1) without material, that is, attempting to sell the prospect without the assistance of literature which might demonstrate some of the salesman's points; (2) with printed matter (portfolio), selling the prospect with the promotional material and booklets which were provided by the home office; (3) with samples, supplementing the sales talk with merchandise samples; and (4) with samples and printed matter. When the men were timed, the field representative found that each one used the same method of selling throughout the interview. He could therefore easily compute the dollar volume of sales which could be credited to each selling method. Finally, by determining the dollar volume per selling minute attributed to each selling method and the per cent of items mentioned sold, executives believed that they had a check on the best type of sales presentation. The results of these computations are illustrated in Exhibit 2 and serve to show that the use of printed matter and samples was the best method.

Exhibit 2. WECO PRODUCTS COMPANY. Effectiveness of Selling Methods Used



On the basis of the information obtained sales department officials undertook to set up a routing plan which could be used by salesmen in improving their present procedure. Briefly, they listed all the salesman's retail accounts with a Hayer Druggist Directory credit rating of A or B and plotted them on a map of the territory; ordinarily, accounts would have been graded according to volume, but such figures were unobtainable. Next, clover-leaf route patterns were set up, each originating and ending in the salesman's home town. An attempt was made to arrange the routing so that a man would not have to stay out in his territory over week-ends; thus the first and last calls on the pattern were located as near the man's home as possible. A similar procedure was followed in the case of a salesman's wholesale accounts but since each territory contained only a few, the routing problem was simplified. Two separate routes were thus established for wholesale and retail calls since the salesman's job involved first selling the wholesaler and then writing turnover orders.

As a result of this attempt to help the men route themselves, many economies in travel operation were effected. The failure of salesmen to route themselves in the past was found to result in an unusual amount of "backtracking," one reason for this being that, since the men paid their own expenses, most assumed that it would be less expensive to return to their homes each night. By explaining to the men how the average number of interviews and average sales per day might be increased by more efficient routing, it was then possible to show how increased travel expenses (hotel and meals) would be more than compensated for by higher earnings and the saving in distance traveled. Exhibits 3 and 4 illustrate a typical routing pattern employed by one salesman in a particular territory both before and after a time analysis had been made and the new routing procedure put into effect. Exhibit 5 projects the increase in sales to be realized by a salesman who has been able to reduce his weekly travel time by eight hours.

Two problems were encountered in the application of the more efficient sales and travel procedures recommended by those making the time and duty analysis. The major problem was in getting the wholehearted cooperation of the salesmen who were, in general, indifferent and skeptical toward attempts to route them. The average salesman had been accustomed to running his own territory, paying no particular attention to the amount of time he spent in travel, but starting out without any clear idea or organized plan of what accounts he was to call on on a particular day. Sales executives, however, felt that the study in time would enable the company to build a more efficient force, because they now possessed more accurate knowledge of where to place training emphasis and how to apply corrective controls. Secondly, the salesman's daily schedule had sometimes to be interrupted, a fact which might interfere seriously with any organized routing procedure. After the salesman had introduced a special deal to the wholesaler, had gone

Exhibit 3. Weco Products Company. New Routing for Section of Pittsburgh Territory Following Application of Systematic Procedure

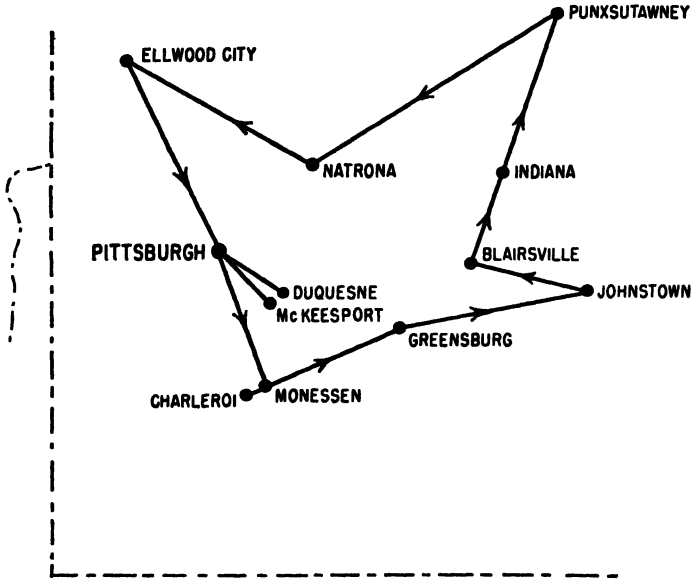
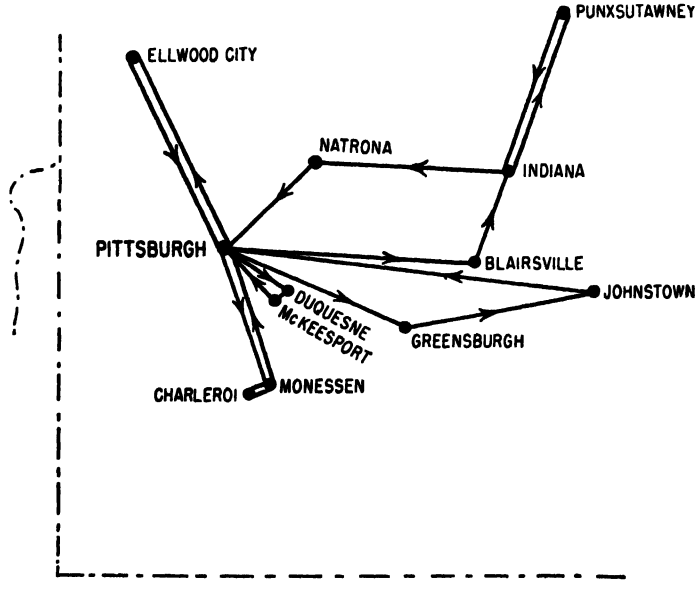


Exhibit 4. Weco Products Company. Sample Routing of One Section of Pittsburgh Territory Prior to Time and Duty Analysis



over all the details with the latter's salesmen, and had started them on their retail selling, he might find that goods in a certain area were not being sold properly or that a particular wholesaler was having trouble in introducing the deal. In this event, he would have to leave his retail route again to work with the wholesaler and his men. Also, the Weco salesman could not always schedule his appointment with wholesalers so that all the introductory work could be completed before starting in on turnover business. In other words, he could not apply separate routings to wholesale accounts and retail stores without interrupting both at more or less frequent intervals. During the war changes in territories and functions of salesmen thwarted many of the company's efforts to improve routing procedure. Many retail stores had gone out of business and wholesaler's salesforces were being depleted, thus giving Weco representatives further cause to break their routines to assist customers. Shortages of merchandise increased the difficulties in maintaining good customer relations.

Exhibit 5. WECO PRODUCTS COMPANY. Potential Increase in Sales through Application of Rerouting Procedure Time and Duty Analysis—1940 (Section of Virginia Territory)

TABLE I. SAVING POSSIBLE BY REROUTING

	Original	After rerouting	Saving
Miles traveled per trip	547	360	187
Hours in travel:			
Per day	4.5	2.9	1.6
Per week	22.5	14.5	8.0
Hours worked per week (9 hours per day)			45.0
Hours saved by rerouting			8.0
Hours worked when route is covered systematically			37.0 *

TABLE II. ESTIMATED ADDITIONAL SALES

Minutes formerly required per interview including travel	61.3
Travel time saved per interview	11.3
Interview time when salesman is routed	50.0
Interview possible per day when route is worked systematically	10.8
Interviews made per day	8.2
Additional interviews per day	2.6
Sales per interview per cent of total	12.2
Sales increase	31.7%

* If salesman worked 9.2 hours per day he could complete 37 hours of work in *four* days.

However, close contact with the field revealed that those who were attempting to route themselves according to the company's plan were producing the best sales results. Furthermore, management found that if the salesmen knew that the home office had a detailed knowledge of what was going on in the field, they showed a greater interest in their work and sales improved accordingly. Since an important finding of the analysis proved that selling with portfolio and samples constituted the best procedure, management also found that salesmen could be made more efficient through the standardization of sales interview methods.

The time and duty analysis was repeated during the summer of 1941 and was then discontinued for the duration of the war. However, in the spring of 1946, Weco executives were anxious to resume the study because of the valuable data which it provided in 1940 and 1941. Furthermore, there were new salesmen about whom the sales department wished further information. In addition, the general sales manager wanted to check the results of its training and to find out how much the men had learned about improved selling procedure. Sales from 1940 to 1946 had risen from 66% of the firm's estimated potential to 114%. While it was probable that part of this increase was due to a more efficient use of salesmen's time, management could not judge precisely because of the general increase in business activity.

During the war, the results of the original studies aided the vice presidents in their control of field selling activities and made them aware of the weaknesses in the salesmen operating in their districts. Since the analysis further revealed that the salesmen were not providing services for the retailers such as cleaning cabinets, instructing clerks, and replacing soiled and broken merchandise, effort was made to teach them to "revitalize" counter displays and to spend more time in contact with store personnel. One of the main problems was encountered in convincing Weco representatives that, even though they could not make a sale during a particular interview, they were preparing for future sales by providing such services for the druggist. Although the company did not have a prescribed training program, it did have a training period for new salesmen which differed in length and content for each man. Initial instruction generally included work in the company's plant, sales, and order departments and in the field under senior salesmen. The company management pointed out that the time and duty study had provided management with sufficient information to place the proper emphasis on each phase of the training procedure and to include instruction in those selling methods which had previously been overlooked.

The 1946 study was conducted by the same personnel who supervised the original surveys, and although the executives anticipated applying the analysis to all the company's salesmen, results were tabulated after the first 17 men had been studied over a period of 77 days. While the same procedure

Exhibit 6. Weco Products Company. Analysis of Salesman Phillip Cate

Basis of Comparison. The observer worked with Phil Cate in the Long Island section of New York for four days the week of June 10, 1946. During that time we made 37 calls and secured 31 interviews. Wrote an average daily sales of $386.09 and averaged 7.7 interviews per day and worked 7 hours daily. Phil's record of total turnover business for the first 26 weeks of 1946 rates him fifth out of 17 men in the survey to date.

The averages are based on data gathered while observing 17 salesmen for a period of 77 days. All data except average daily sales, number of interviews, and hours on duty are broken down into minutes and dollars per interview. Only when the salesmen talked to the buyer and attempted to sell the line was the call considered an interview.

Time. Cate's total interview time of 47.9 is about 7 minutes less than the average 55.35. His selling time of 8.6 is slightly less than the average of 9.08 and his nonselling time of 39.3 is about 5 minutes less than the average of 46.27. He has the highest display installation time 2.2 as compared to the average of 0.79. This was occasioned by his setting up the Lucite deals in almost all accounts. His procedure was to leave it in the car and then ask the druggist's permission to bring it in. Phil said this he found was the best way to sell the deal. The waste of time seems a bit excessive, but his results have proved the method to him. Phil has the highest broken interview time 4.3 as compared with the average of 2.30. This is due to the fact that Phil is persistent and when the druggist would break away on some pretext or other, Phil would hang there and wait on him, and fire away as soon as he got back into range. This persistence paid off in many instances, but Cate sweated quite a few of them out for the pay-off.

Selling Time. Phil divides the selling time into selling with portfolio 3.4 and selling with portfolio and samples combined 4. In using the Lucite case as a sample he built up quite a bit of combined method time. He also shows a sample in selling the tooth paste.

Nonselling Time. As stated above, Phil with 2.2 is highest in display installation. He is also lowest in awaiting interview time with 1.4 as compared with the average of 3.67. Many of the accounts we called on were small where an immediate audience was secured. Phil tries to move in on the buyer as quickly as possible, which is a good idea. He is also with 0.6 the lowest in use of general conversation as compared with the average of 2.2. His broken interview time as explained above is the highest. Phil uses little general conversation. He doesn't know the accounts too well so he merely introduces himself and gets into his story.

Selling Efficiency. Phil mentions 1.6 items per interview as compared with the average of 2.54 and he sells 0.81 items per interview as compared with 1.08 of the average. His percentage of mentioned items sold is 49 as compared with the 48.6 of the average. He was high man with an average daily sales of $386.09 as compared to the average of $265.69. Phil's sales for that period were a bit higher than his usual week but he is up in the foreground running fifth of 17 men over a 26-week period. Because of his low nonselling time he can average 7.7 interviews per day.

Sales Planning. The outline for the sales planning is done for the New York men by Bob Wright, our regional vice president. He is in daily contact with all the men, and checks daily to determine their progress. Where it isn't up to par, frequent conferences ensue until the solution is worked out. This supervision results in these boys having a definite plan when they enter an account. However, if this plan is not feasible for the account, they are on their own. Cate is not sharpened on the advantages of sales planning yet, but working under Bob the light will dawn.

Presentation. Phil makes a good impression on his accounts. He is big and affable and quite earnest when he sells. He is tenacious and persistent without being offensive about it. Of course there is a certain percentage of New York accounts that just cannot be sold. Everyone will run into them. Phil did and was discouraged until he reasoned that the law of averages will work out. Phil uses either the portfolio or portfolio and sample combined in selling. He works hard at it, and used the given sales story while I worked with him. As mentioned above he used the procedure of asking the druggist permission to bring in the Lucite case. He felt that if the druggist granted permission to bring in the Lucite case it was tantamount to agreeing to be interested enough to buy it. Although it took some more time than usual, he did have a fair amount of success in selling it by use of this method.

Summarization. Phil has a good salesman's personality. He is a welcome relief to the druggist from the usual New York sharpie salesman who is always pulling a fast one. Phil is a slow starter but a strong finisher. He is persistent, and keeps pitching. His technique is not startling or new but the use of it and the law of averages will keep him up in sales. Under Bob Wright's tutelage he will gain some of the smoothness he now lacks to make his job easier. At present he doesn't have enough variation in his repertory to meet all the negatives of the

Exhibit 6. WECO PRODUCTS COMPANY. Analysis of Salesman Phillip Cate (*Continued*)

druggists. He is not enough of an angle man to induce some of his accounts. By angle I mean hitting them with a new idea that seems to fit their own particular store. All this will come with experience with Weco. In the meantime Phil's record is good and that daily phone call won't stop.

COMPARATIVE TABLE OF SALESMAN'S WORK

	Cate	17-man average	High for each operation	Low for each operation
Items shown or mentioned per interview	1.6	2 54	4.8	1 2
Items sold per interview	8.1	1.08	2.3	0 51
Per cent of mentioned items sold	49.0	48.6	76.0	23 8
Dollar volume per interview	$ 49.82	$ 37.85	$ 58.73	$ 16.98
Dollar volume per selling minute	$ 7 30	$ 4 71	$ 8.99	$ 1 57
Average daily sales	$386.09	$265 69	$386.09	$114.65
Average number of interviews per day	7.7	7.1	9 6	5 0
Hours on duty per day	7 0	7 3	8 1	6.8

Time in Minutes per Interview and per Cent of Total Interview Time for Each Operation

	Cate		17-man average		High for each operation	Low for each operation
	Time, minutes	% of total interview time	Time, minutes	% of total interview time		
Selling time—total	8.6	17.7	9.08	16.4	15.19	4.20
Printed matter	3.4	7.1	6 31	11.4	9.35	1.70
Samples	0.5	1.0	0.28	0.5	1.70	*
Printed matter and samples combined	4.0	8.3	1.94	3.5	7.72	*
Checking stock	0.7	1.3	0.55	1.0	1.54	*
Nonselling time—total	39.3	82.3	46.27	83.6	63.02	32.78
Display installation	2.2	4.6	0.79	1.4	2 20	*
Instructing sales clerks	0	0	0.19	0.3	0.87	*
Awaiting interview	1.4	3.0	3.67	6.6	7.70	1.40
Broken interview	4.3	9.0	2.30	4.1	4.30	0.87
General conversation	0.6	1.2	2.20	4.0	4.77	0.60
Miscellaneous	11.8	24.9	12.71	23.1	28.00	3.74
Travel	18.9	39.6	24.41	44.1	35.65	12.20
Total interview minutes	47.9	100	55.35	100	73.20	43.10
Idle time	6.30	13.1	6.64	. .	10.70	4.13

* Low men did not perform these functions.

Exhibit 7. Weco Products Company. Analysis of Salesman David Harris

Basis of Comparison. The observer worked with Mr. Harris for a period of four days—March 12, 13, 14, and 15, 1946, in the vicinity of Chicago, Illinois. On these days the salesman called on 37 retailers and secured 27 interviews averaging a daily sales total of 114.65. The averages are based on data gathered while observing 17 salesmen for a period of 77 days. Only when the salesman talked to the buyer and attempted to sell the line was the contact considered an interview.

Time. Harris' total interview time of 53.72 minutes is close to the 55.35 17-man average. However, he does not spend the time as profitably as he will with experience, because he is developing his territory and barges right into his sales talk rather than devoting a portion of the interview time to the sales warm-up used by the older men. Some of the interview time Harris has already adjusted since this survey, as evidenced by his increased rate of sales as he gains experience.

Selling Time. Harris' selling time of 10.75 is well above the T average [1] of 9.08. He is high man in selling with printed matter and samples combined with a 7.72 average as compared to the T average of 1.94. He also has a high (1.11) selling without material average as compared to the T average of 0.55. He is following the prescribed method of planned selling by using the portfolio and samples combined method. Inasmuch as the method has been proved sound, his sales volume should increase as he refines his sales stories and techniques.

Nonselling Time. Harris' nonselling time of 43.97 compares closely with the T average of 46.27. Harris does no instruction of clerks but plans to do so as his acquaintance with his accounts grows. He has a low awaiting interview time (1.72) as compared with the T average (3.67). This is because he enters the store and makes a beeline for the buyer and immediately starts his sales story. It was suggested to him that in the space interval of waiting for the buyer he could profitably size up the store and attempt to ascertain the druggist's problem to strengthen his sales story. Harris has a high broken interview time (3.44) as compared with the T average (2.30). The reason for this is that he hasn't mastered the knack of arousing the druggist's enthusiasm to the point that the druggist will stick to his story. Many of the b.i. instances were used by the druggists as excuses to break away from the sales story. The older men of Weco have developed a technique of holding the druggist so that in only instances of heavy traffic will the druggist break his audience.

Selling Efficiency. Harris mentions 3.50 items per interview as compared with the T average of 2.54. However, his percentage of mentioned items sold is 26.3 as compared to the T average of 48.6. This is quite low and is mostly due to lack of selling experience. He is armed with the weapons to make sales but his powder is not yet dry. He doesn't have a smooth story which leads to an order. For every sale he makes he works very hard. Nevertheless, he is using the right method, and should have marked success when the rough edges are worn off. His average daily sales (114.65) are the lowest of the 17 men. His dollar volume per selling minute of 1.57 is also the lowest of the 17 men whose average is 4.71. Although Harris mentions a high number of items he mentions rather than sells. His sales story when improved will gain him many additional sales for the same number of efforts.

Sales Planning. Harris is new to sales planning methods but appreciates the value of a definite procedure approach. He has not learned to size up a store and sense the needs of a druggist. Misses a few opportunities to sell by this lack of savvy. He plans his items to be mentioned well, but his sales story isn't convincing to any great degree.

Presentation. Harris is direct in approach and quite businesslike. He gains the druggist's attention quite speedily. He does not know the trade well enough to have much general conversation. He plunges into the sales story quite fast. His technique of selling is to use the portfolio and sample aids. They aid him to a great degree. To date he has not developed an ease of manner. He is too tense and doesn't roll with the punches. All this should arrive with same sales seasoning.

The Angle. Each salesman uses some quirk to aid sales which can help others. The one Harris was using and having some degree of success with was to aid the druggist in making his display more effective. Harris rearranges brushes, cleans up the display, refills the stock and offers to exchange broken merchandise in an effort to get on more friendly relations with the druggist. In several instances this effort paid off in an order.

Summarization. Harris is industrious, aggressive, and is enthusiastic about the line. He is neat in dress, well groomed, and makes a good appearance. His knowledge of the merchandise is not too well founded. He hasn't developed judgment of the trade to any great extent to date. I believe that he has selling ability which is latent.

His weaknesses are tenseness, lack of a good sales story, and lack of experience. None of these weaknesses is permanent in nature and he should overcome them and be of Weco caliber.

[1] Average for all salesmen.

Exhibit 7. Weco Products Company. Analysis of Salesman David Harris (*Continued*)

COMPARATIVE TABLE OF SALESMAN'S WORK

	Harris	17-man average	High for each operation	Low for each operation
Items shown or mentioned per interview	3 5	2 54	4 8	1.2
Items sold per interview	0 9	1.08	2 3	0 51
Per cent of mentioned items sold	26.3	48 6	76 0	23 8
Dollar volume per interview	$ 16.98	$ 37 85	$ 58.73	$ 16 98
Dollar volume per selling minute	$ 1 57	$ 4.71	$ 8 99	$ 1.57
Average daily sales	$114 65	$265.69	$386 09	$114 65
Average number of interviews per day	6 7	7 1	9 6	5.0
Hours on duty per day	7 9	7 3	8 1	6 8

Time in Minutes per Interview and Per Cent of Total Interview Time for Each Operation

	Harris		17-man average			
	Time, minutes	% of total interview time	Time, minutes	% of total interview time	High for each operation	Low for each operation
Selling time total	10 75	20 1	9 08	16 4	15 19	4 20
Printed matter	1 70	3 3	6 31	11 4	9 35	1 70
Samples	0 22	0.4	0 28	0 5	1 70	*
Printed matter and samples combined	7 72	14 4	1 94	3.5	7.72	*
Checking stock	1 11	2.0	0 55	1 0	1 54	*
Nonselling time total	43 97	79 9	46 27	83 6	63 02	32.78
Display installation	0 22	0 4	0 79	1.4	2.20	*
Instructing sales clerks			0 19	0 3	0 87	*
Awaiting interview	1 72	3 2	3 67	6 6	7 70	1 40
Broken interview	3 44	6 4	2.30	4 1	4 30	0 87
General conversation	1 58	3 0	2 20	4 0	4 77	0 60
Miscellaneous	5 37	10 0	12 71	23 1	28 00	3.74
Travel.	30 64	56 9	24 41	44.1	35 65	12 20
Total interview minutes	53 72	100	55.35	100	73.20	43 10
Idle time	7.30	13 6	6.64		10.70	4.13

* Low men did not perform these functions.

was followed as in 1940,[1] the summary reports attempted to give a better insight into the character and personality of each salesman, describing in more detail the man's personal approach, his procedure in planning the sale, and his relation with customers in general. Exhibits 6, 7, 8, and 9 show the reports submitted by the field man on four salesmen together with each man's performance as compared to the average, high, and low for each operation. Exhibit 10 shows a comparison of results obtained from the 1946 survey as compared with those obtained in 1941, while Exhibit 11 ranks each man's present performance for individual operations.

From the results of the 1946 time and duty analysis the executives could draw several general conclusions. Salesmen were now selling, almost exclusively, with portfolio and samples, and for the most part were routing themselves according to recommended plans whenever possible. Present sales and expense figures did not indicate that the latter was true, but those conducting the field survey were convinced of the fact. Sales per interview had risen appreciably as had total sales. In 1940 when the company had a complete line of merchandise to offer, salesmen were mentioning fewer items per interview than in 1946. Selling time had not varied appreciably from the previous figure, but improved methods had brought about a more efficient use of that time. In regard to display installations, the study showed that men were spending less time than they were in 1940; furthermore, time devoted to the instruction of retail clerks had decreased. Management regarded these indications as warning signs and planned closer supervision in the field as a remedial measure. The time spent in awaiting interviews had been reduced and, in some cases, eliminated, this being accomplished in spite of the fact that most druggists were busier than before the war and had more salesmen calling upon them. Broken interview time, which had been reduced from an average of 7.08 minutes in 1940 to 5.8 in 1941 to 2.3 in 1946, was regarded as the greatest deterrent to sales for, while the druggist was called away to fill a prescription or work at the fountain, he had time to think of more reasons why he should not place an order. General conversation time had also been reduced. Executives felt that there was an optimum level for this figure, although in their opinion the experience of each salesman was the only factor which could properly determine it. Inasmuch as the company's field analyst found it very difficult to distinguish between general conversation and selling without material, in timing the salesmen there was some doubt as to the reliability of the figures. Some men were very adept at shifting from one phase of the selling operation to another. Although travel time as a percentage of total interview time had risen from 36.9% in 1940 to 44.1% in 1946, sales officials interpreted this as a more effective use of time, for since salesmen could now make more sales

[1] Salesmen were timed only on retail visits in the 1946 study.

Exhibit 8. Weco Products Company. Analysis of Salesman Howard McIntosh

Basis of Comparison. The observer worked with Howard McIntosh in Brooklyn, New York, and sections of New Jersey for four days during which time we made 33 calls and secured 30 interviews. Average daily sales were $262.69 in an average 7.5 number of interviews. 7.1 hours duty were spent each day. On the total turnover business record for the first 26 weeks of 1946, Howard McIntosh was second of the 17 men studied in this survey to date.

The averages are based on data gathered while observing 17 salesmen for a period of 77 days. All data except average daily sales, number of interviews, and hours on duty are broken down into minutes and dollars per interview. Only when the salesman talked to the buyer and attempted to sell the line was the call considered an interview.

Time. Howard has an average total interview time of 53, which is about 2 minutes less than the total average of 55.35. His selling time total of 7.2 is 2 minutes less than the 9.08 average. His nonselling time total of 45.8 is one minute less than the average of 46.27.

Selling Time. Howard sells by using the portfolio 4.3 and by the combined portfolio and sample method 2.5. His selling time is quite short because he usually works with a distributor salesman, and his time is limited so he goes into his story.

Nonselling Time. Howard has a high miscellaneous time 22.2 because he works with wholesaler men and must wait until they have finished the want book and their sales talk with the druggist before he can sell. This must go into miscellaneous time. Travel is low because of the city territory. It would be less if Howard had a car. He must rely either on wholesaler men or subways, both of which are time losers. Also his lack of a car means he cannot carry the complete equipment including samples as he should. Broken interview time is low because the druggist grants an audience after he has completed his business with the wholesaler's man and is willing to listen. In many of these metropolitan accounts the buyer does not have to break the interview to wait on store traffic.

Selling Efficiency. Howard mentions 1.4 items per interview as compared with the average of 2.54. He sells 0.97 items per interview as compared with the 1.08 average. His percentage of mentioned items sold is 67.4 which is high compared to the 48.6 average. His average daily sales of $262.69 are close to the average $265.69 of the total group. Howard has only an average volume of sales per interview, and he digs into greater volume of interviews to get more volume. He highspots as do the other metropolitan salesmen when possible. One factor that gives the metropolitan area volume is the large number of accounts that are capable of absorbing our largest deals.

Sales Planning. As mentioned before, the planning in this area is supervised by Bob Wright. While it is true that all salesmen get the deals concurrently it is also true that the daily checks of the New York boys help to keep up their high rate of sales. To borrow a simile, it is much easier to swim a race if the coach is following close behind with a megaphone full of suggestions than it is to swim it alone. This is not in disparagement of the abilities or efforts of the New York salesmen. It is merely to point out that Mr. Wright has taken advantage of the density of the territory and is able to coordinate the efforts of his charges.

Presentation. Howard's chief forte of trade is his persistency. He'll hang on to a retailer until he gets the order. His presentation has to vary in this territory because many of the retailers are sold strictly on price. They are not interested in the merchandising potential because most of them are, in their own estimation, better merchandisers than are we. Howard stresses the profit angle in his sales talk. Talking on a dollars and cents basis is something the Brooklyn druggists understand and are willing to listen to.

The Angle. Howard uses the wholesaler salesmen to good advantage. Before he enters an account with them he usually dry runs the wholesaler salesman in the story to be given to the druggist, and cues him the places that he, the wholesaler, should cut into the story and lend a helping hand. This aids in swinging sales because the wholesale house man calls on the accounts weekly, knows them much better, and many druggists will buy on his say-so.

Summarization. Howard McIntosh is persistent and uses plenty of pressure. He speaks Brooklynese with the druggists, many of whom know him intimately. He takes more verbal punishment than any of the men with whom I worked, but even though he is literally knocked off his feet, he always lands with the order pad and pencil in hand. He has a tenacity about him that characterizes his selling methods. The druggists seem to know this, and realize they have a tough fight on their hands if they don't give him an order. McIntosh also has a rough tongue, and can give back as good as he gets, and this reverse selling seems to be a magic formula with him on occasions. He always has a deal that Weco is not offering, but close inspection will reveal it is one of our deals presented in the McIntosh manner--same component parts camouflaged by Brooklyn blarney. He knows enough druggists well enough to simply state "I'm shipping it" even after the druggist refuses it, and they take it. He has

Exhibit 8. WECO PRODUCTS COMPANY. Analysis of Salesman Howard McIntosh (*Continued*)

built a friendship with the druggists based on service, making good on promises, and being generally obliging. Anything of an altruistic nature in Brooklyn is of double value because of the general impression that the fellow next to you has a sharp knife.

COMPARATIVE TABLE OF SALESMAN'S WORK

	McIntosh	17-man average	High for each operation	Low for each operation
Items shown or mentioned per interview	1.40	2.54	4.8	1.2
Items sold per interview	0 97	1.08	2.3	0.51
Per cent of mentioned items sold	67 4	48.6	76 0	23.8
Dollar volume per interview	$ 35.02	$ 37.85	$ 58.73	$ 16.98
Dollar volume per selling minute . .	$ 4 90	$ 4.71	$ 8.99	$ 1.57
Average daily sales	$262.69	$265.69	$386.09	$114.65
Average number of interviews per day	7 5	7.1	9.6	5.0
Hours on duty per day	7.1	7 3	8.1	6.8

Time in Minutes per Interview and Per Cent of Total Interview Time for Each Operation

	McIntosh		17-man average		High for each operation	Low for each operation
	Time, minutes	% of total interview time	Time, minutes	% of total interview time		
Selling time total	7.2	13.7	9.08	16.4	15.19	4.20
Printed matter.	4.3	8.1	6.31	11.4	9.35	1.70
Samples		.	0.28	0.5	1.70	*
Printed matter and samples combined .	2.5	4.8	1.94	3.5	7.72	*
Checking stock .	0.4	0.8	0.55	1.0	1.54	*
Nonselling time- total	45.8	86 3	46.27	83.6	63.02	32.78
Display installation	0	0	0.79	1.4	2.20	*
Instructing sales clerks	0	0	0.19	0.3	0.87	*
Awaiting interview	2.0	3.5	3.67	6.6	7.70	1.40
Broken interview	0.9	1.3	2.30	4.1	4.30	0.87
General conversation	1.0	1.9	2.20	4.0	4.77	0.60
Miscellaneous .	22.2	42.2	12.71	23.1	28.00	3.74
Travel .	19.7	37.4	24.41	44.1	35.65	12.20
Total interview minutes	53.0	100	55.35	100	73.20	43.10
Idle time	5.9	11.2	6.64	.	10.70	4.13

* Low men did not perform these functions.

Exhibit 9. Weco Products Company. Analysis of Salesman Frank Floyd

Basis of Comparison. The observer worked with Frank Floyd for a period of four days, July 22–25, 1946, out of Columbus, South Carolina. During this time 37 calls were made and 27 interviews were secured. The average daily sales were $340.39 and we worked 7 hours per day securing 6.7 interviews per day. In the total turnover business records for the first 25 weeks of 1946 Floyd was sixth of 17 men in the survey.

The averages are based on data gathered while observing 17 salesmen for a period of 77 days. All data except average daily sales, number of interviews, and hours on duty are broken down into minutes and dollars per interview. Only when the salesman talked to the buyer and attempted to sell the line was the call considered an interview.

Time. Frank's total interview time average of 55.40 approximates the total average of 55 35. His total selling time of 7.73 is less than the average of 9.08 and his total nonselling time of 47.67 is slightly more than the average of 46.27. He was highest in selling without material 1.54 as compared with the average of 0.55.

Selling Time. Frank's total selling time of 7.73 is broken down into 5.89 selling with portfolio which is his favored method of selling, followed by 1.54 selling without material which he uses on some accounts as a start to the sales presentation. Floyd was third high man in percentage of mentioned items sold and dollar volume per interview.

Nonselling time. Flovd's total nonselling time was about average. He has a high awaiting interview time 5.41 as compared to the average of 3.67. This was caused on several occasions by prescription-filling druggists on whom we had to wait. This was no fault of Frank, whose approach is fast. He is sold on the idea of productive and nonproductive time, and tries not to waste any time at all.

Selling Efficiency. Frank mentions 2.3 items per interview as compared to the 2.54 average. He sells 1.4 items per interview as compared to the 1.8 average. He sells 62.9 per cent of the items he mentions as compared to the 48.6 average. His average daily sales are $340.39 and the average interview volume is $50.43 as compared to the average of $265.69 and $37.85.

Sales Planning. Frank sizes up the store quite carefully and usually picks the deal that the buyer can use. There is a little problem down here in the South in that it seems traditional that the average Southerner's toes can be easily trod upon. The best approach is to give him the details of the deals, listen to his negatives, break them down carefully and then make suggestions as to possible solutions of his problems.

Presentation. Frank has been with Weco for several years, both inside and out, and knows the products and the inner workings of the home office. He makes capital of this knowledge when talking to buyers and it impresses them. He can talk intelligently on most phases of the business. The druggists in the South are much more courteous than in some other sections. Although they don't sell easier they do give you an audience and listen to what you have to say. They make you feel as though the conversation is between two gentlemen regardless of the difference of opinions in regard to the buying angle. This gives a salesman a chance to get home his points. Floyd takes advantage of this. He tells the stories well. He covers the good points, and doesn't take too long to do it. He gauges the pressure he puts on his accounts, because he can't forget he is an invader. However, he seems to be one Yankee who is doing all right for himself in Dixie.

Summarization. Floyd has retaken his old territory and is re-establishing himself in it. He enjoys the section and is well on his way to getting a good piece of business out of it. He has cordial relations with the wholesale houses, and was conducting a paste drive with Garson Drug of Charleston, South Carolina, at the time of the survey, which seemed to be functioning smoothly. Floyd makes a good impression on the trade; they like his approach and mannerisms. He is friendly and practically a native. He stresses his new affiliations which is being cozy on his part. He hasn't much of a change of pace and doesn't use many new angles.

Exhibit 9. Weco Products Company. Analysis of Salesman Frank Floyd (*Continued*)

COMPARATIVE TABLE OF SALESMAN'S WORK

	Floyd	17-man average	High for each operation	Low for each operation
Items shown or mentioned per interview	2.3	2.54	4.8	1.2
Items sold per interview	1.4	1.08	2.3	0 51
Per cent of mentioned items sold	62.9	48.6	76.0	23.8
Dollar volume per interview	$ 50.43	$ 37.85	$ 58.73	$ 16.98
Dollar volume per selling minute	$ 6.49	$ 4.71	$ 8.99	$ 1.57
Average daily sales	$340.39	$265.69	$386.09	$114.65
Average number of interviews per day	6.7	7.1	9.6	5.0
Hours on duty per day	7.0	7.3	8.1	6.8

Time in Minutes per Interview and Per Cent of Total Interview Time for Each Operation

	Floyd		17-man average		High for each operation	Low for each operation
	Time, minutes	% of total interview time	Time, minutes	% of total interview time		
Selling time total	7 73	13.9	9.08	16.4	15.19	4.20
Printed matter	5 89	10 6	6.31	11.4	9.35	1.70
Samples			0.28	0.5	1.70	*
Printed matter and samples combined	0.30	0.5	1.94	3.5	7.72	*
Checking stock	1.54	2.8	0.55	11.0	1.54	*
Nonselling time—total	47.67	86.1	46 27	83.6	63.02	32.78
Display installation	0.63	1.1	0.79	1.4	2.20	*
Instructing sales clerks	0.52	0.9	0.19	0.3	0.87	*
Awaiting interview	5.41	9.8	3.67	6.6	7.70	1.40
Broken interview.	1.65	3.0	2.30	4.1	4.30	0.87
General conversation.	2.79	5.0	2.20	4.0	4.77	0.60
Miscellaneous	8.30	15.0	12.71	23.1	28.00	3.74
Travel	28 37	51.3	24.41	44 1	35.65	12.20
Total interview minutes	55.40	100	55.35	100	73.20	43.10
Idle time	6.85	12 4	6.64		10.70	4.13

* Low men did not perform these functions.

Exhibit 10. WECO PRODUCTS COMPANY. Data of Averages Secured on Survey Made in 1946 as Compared with Survey Made in 1941

	1946 average, minutes	1941 average, minutes	Percentage change from 1941 (noted with minus sign)
Time Factors			
Selling time total	9.08	9 1	− 0.2
Printed matter	6.31	3.4	85.6
Samples	0.28	1.8	−55.0
Printed matter and samples	1.94	1.0	94 0
Without material	0 55	2.9	−89.6
Nonselling time total	46 27	54.0	−14.3
Display installation	0 79	0 7	12 8
Instructing clerks	0.19	0.4	−52.5
Waiting interview	3.67	6.2	−40.8
Broken interview	2.30	5.8	−60 3
General conversation	2.20	7.2	− 3.2
Miscellaneous	12.71	8.2	
Travel	24 41	25.5	− 4 3
Total interview minutes	55.35	63.1	−12.3
Idle time	6.64	6 8	− 2 4
Selling Efficiency			
Items shown or mentioned per interview	2.54	3.0	−15.3
Items sold per interview	1.08	0.78	38.5
% of mentioned items sold	48.60	26.0	86.9
Dollar volume per interview	$ 37.85	$ 18.43	105.4
Average daily sales	$265.69	$123.63	114.9
Hours on duty each day	7.3	8.4	−13.1
Average no. interviews	7.1	7.7	− 7.8

Exhibit 11. WECO PRODUCTS COMPANY. Time Factors Rated Numerically from Highest to Lowest

	Total sell time	Portfolio	Sample	Portf and sample	Without material	Nonselling time	Display install	Instruct clerks	Waiting inter	Broken inter	Gen conversation	Misc	Travel	Total inter min	Idle	Items ment'd per interview	Items sold per interview	% ment'd items sold	$ vol per inter	$ vol per sell mun	Avg daily sales	Daily avg No inter	Hours on duty
Harris	3	17	8	1	3	11	13	11	14	3	14	15	4	7	4	5	10	16	17	17	17	8	2
Simpson	9	8	4	8	5	4	8	4	6	6	1	3	10	3	2	8	2	5	8	9	13	11	7
Shaw	2	3	2	4	4	3	10	5	5	7	2	7	3	2	2	6	5	12	7	14	12	11	6
Foster	10	6	7	13	12	9	15	10	4	5	6	12	8	6	7	7	12	17	16	15	16	7	10
Benson	4	7	6	10	6	1	2	11	1	2	8	8	1	1	3	10	7	8	2	16	6	12	10
O'Toole	11	1	1	2	13	12	16	1	2	8	16	17	6	4	1	2	15	15	15	13	14	4	3
Burman	5	5	12	16	8	17	3	7	10	11	5	16	13	13	6	5	7	14	13	16	10	1	4
Lupton	2	11	11	15	11	8	9	8	8	10	11	6	17	17	12	1	1	11	11	11	5	7	5
Flannery	15	4	9	17	8	2	14	8	10	12	3	4	2	6	15	14	13	9	14	12	15	11	1
Ross	4	10	.	11	9	15	7	3	8	4	12	13	16	16	14	4	2	10	9	1	2	7	11
Preston	5	9	2	9	2	5	5	6	13	15	13	1	11	11	16	11	5	1	5	5	1	3	7
Cate	12	16	3	3	5	14	1	11	15	1	17	2	14	14	10	13	11	8	10	2	8	10	10
McIntosh	14	14	.	6	10	8	16	11	13	15	15	15	12	12	11	13	9	2	6	8	8	4	9
Hankin	15	13	5	7	7	13	12	9	12	9	10	5	15	15	9	11	9	6	12	10	7	5	10
Thorson	7	9	10	5	10	7	6	11	7	14	7	10	9	10	13	3	3	13	4	3	3	9	2
Ferbuli	13	11	5	14	14	6	4	11	11	16	9	9	7	8	8	12	8	4	3	4	3	6	8
Floyd	16	12	.	12	1	.	11	2	3	13	4	14	5	5	5	9	4	3	.	.	4	8	10

in a shorter time, they could work a shorter number of hours per day and make approximately the same number of calls. The average number of interviews had decreased by only one per week while salesmen worked almost an hour less per day.

While Weco believed the time and money spent in conducting the previous three studies had produced a great deal of worth-while information, in the fall of 1946 they had certain doubts concerning future activities of this nature. Primarily, there was a question as to the benefits derived from applying a systematized routing procedure to the routine of Weco salesmen in view of the problems of coordinating wholesale and turnover business. The amount of time spent in travel, as revealed by the latest study, strengthened this doubt. Secondly, there was the possibility that the time and duty analysis was not an adequate appraisal in itself of the selling job being done. The question arose as to whether additional studies, which might be made concurrently and by the same personnel, might not supplement the findings of the duty analysis. Finally, there was the decision as to how often and when studies of this nature should be made, whether partial surveys of a portion of the salesforce should be made at frequent intervals, or whether a complete analysis made every two years or more would prove more effective in the long run.

83. BROCKWAY PAINT COMPANY. Personnel Problem Relating to Star Salesman

The Brockway Paint Company was one of the larger paint manufacturers operating solely in the Pacific Coast states. The company had a reputation for producing high-quality products, and its volume of industrial and commercial sales compared favorably with the volume obtained by national paint manufacturers in the Pacific Coast area. The company had a salaried salesforce of approximately 100 men who specialized in selling either to industrial accounts or to commercial accounts. In August, 1940, the culmination of a series of unfavorable incidents relating to the performance of one industrial salesman over a period of five years caused the Brockway division sales manager to question seriously whether or not the man should be discharged immediately.

The salesman, T. L. Longe, first entered the employ of the Brockway Paint Company in September, 1927. Previous to his association with the Brockway Paint Company, Longe had gained considerable experience as an engineer and salesman of paints to industrial accounts. He joined the Brockway force at the age of 31, and his experience in the field soon enabled him to become the company's top-ranking industrial salesman. Longe maintained his sales record until the spring of 1935. Then his volume began to decline gradually. In the fall of 1935 the district sales manager reported to divisional office headquarters that Longe had been failing to turn in call

sheets on numerous occasions, that he had not uncovered any new business during the year, and that his sales volume was decreasing.

When no satisfactory explanation was forthcoming from Longe, the divisional sales manager decided to depart from company policy and have an outside organization carefully watch Longe for a limited period and report his activities during the working day. Although the company had never previously resorted to this device, it was believed that since no satisfactory explanation of Longe's difficulties had been offered by the man himself, this method would provide the company with necessary information. On September 20, 1935, the first indication of the cause of Longe's difficulty became apparent in an account of his activities for that day. The report stated:

> Longe left the company office at 12 o'clock noon and went to the Bowie Beer Tavern. He left there at 12:15 p.m. and returned to the company office where he remained for a period of not over four or five minutes. Leaving there he drove to the Royal Brewery at 12:43 and did not come out until 5 p.m.

When questioned concerning his activities on September 20, Longe admitted his visit to the Royal Brewery but contended that it was for business purposes only; subsequently sales were made to this account. It soon became apparent, however, that Longe had been resorting to drink on occasion, which company officials were completely opposed to during the working day. Aside from frequent warnings, the company decided not to take any action, hoping that Longe would change his habits. Even though his sales had declined, he still was able to rank high in total volume.

Longe's sales continued to decline, however, and after a period of almost four years in which the company had taken no drastic action, in October, 1939, the sales executives decided to call Longe into the office for a physical examination. Since all employees were subject to such examinations from time to time, Longe could be called in without arousing suspicion. Although the executives hoped that the examination would disclose some cause of Longe's growing lack of interest in his work, the physician's report disclosed nothing other than a statement that Longe apparently consumed a considerable amount of liquor.

On January 4, 1940, the district sales manager made the following report:

> Longe was away sick on Tuesday and Wednesday, January 2 and 3, and did not report to the office. On Wednesday afternoon I phoned his home and Longe answered stating he was ill and that he was under the impression his wife had telephoned in.

Although the district manager was unable to verify the cause of Longe's absence from work on these days, there remained some doubt as to whether the latter had actually been ill.

On March 2 the district manager again spoke to Longe concerning his failure to open new accounts. The following report explains the district manager's appraisal of their meeting on that date:

> I pointed out to him [Longe] that he is steadily going down hill and that his customer sheet was conspicuous by the fact that he had so few new accounts. . . . I explained to him that his lack of aggressiveness in following up accounts was quite noticeable. For example, he mentioned in a casual manner that we were having some difficulty at the Elmo Lithograph Company and that he thought the factory would correct it immediately. Upon investigation I found that for two and a half months we had not received any business because our last batch of varnish had been too dark and of the wrong consistency. Instead of reporting this to us and putting up a fight to see that this condition was remedied immediately, he simply discussed the matter with our production manager and hoped that he would be able to correct it. . . . He admitted that he had done very little aggressive selling, but would immediately go out and sell some.

On March 27, the district sales manager reported another conference with Longe:

> Today I again reviewed with this employee [Longe] the results of his activities. I told him that the company feels that he has not improved despite the several warnings given him, and that, in fact, the company feels that he has been slipping further than when this subject was discussed with him some time ago. He was told that the company had about reached the end of its patience and that unless within the next month or so there was a decided improvement which the company thought could continue, the company would have to take drastic action by either relieving him of his present duties or asking for his resignation.
>
> I again told him that I had noticed he had been drinking occasionally. The other night when I was discussing some business deals with him, he had been drinking so heavily that I found it necessary to discontinue the discussion until the following morning. . . . I again told him that he was coasting on his job, just went through the motions, seemed to lack enthusiasm, and neglected to report items of interest happening in the trade.

For the next five months a careful check was maintained on Longe's selling activities, and there was no apparent indication that his enthusiasm and interest in the company had improved. He continued to perform his activities in a manner which the district sales manager described as "uninspired." On April 12, the district manager reported that he had detected "the odor of liquor" on Longe's breath and that, on being questioned, the latter had replied that he had had a drink with a customer after completing a sale. Again, a few days later the district manager reported:

> I called on a new account with Longe this morning to keep an appointment, and while in his car I noticed the odor of liquor was rather strong. I asked

him if he had had a drink this morning. He denied having a drink, but said that he had had a few the night before.

When Longe's sales volume failed to show any improvement by July, the district sales manager questioned whether Longe was actually spending much time in performing selling work or whether, as he suspected, Longe was quitting work early each day. In order to check on these activities, the district manager asked Longe to report to the branch office each afternoon between 5:00 and 5:30 p.m. or, if he found it impossible to do so, to telephone the branch office. Although Longe promised to comply with these instructions, the district manager reported that Longe had failed to visit the office or to telephone:

> For a week he neither came in nor telephoned; therefore, on Monday, July 29, I again reminded him of my instructions. He promised he would be in that night, but he did not show up Monday, Tuesday, or Wednesday evenings, although I waited for him until 5:30 p.m.
>
> On Thursday morning, August 1, I had a call from the Everly Tool Company to the effect that they had been expecting Longe out there for the last four or five days, but that he had not appeared. They wondered if I would come out in regard to a complaint. On the way back I made a call on one of Longe's best potential accounts and made inquiries as to how they were being serviced. Although they did not complain about the lack of attention, they did say that he had not been there for about a week and that they were anxiously waiting for him as they had a problem to work out.
>
> I finally got in touch with Longe on the telephone Thursday morning and told him to come in and see me. In trying to locate him at the time, we called his wife, who said she would leave her job immediately and try to locate him. She said that he was probably with a Mr. Brown and added that Mr. Brown was not working in the daytime and was at home with leisure time on his hands, and that Longe often stopped by to see him. I do not know where she found him, but Mrs. Longe finally got in touch with him and gave him the message.
>
> Longe came in the office about 11:30 a.m., and the moment he sat down I detected the odor of liquor on his breath. I asked him if he had not had a drink or two that morning. He admitted that he had, but that he had bought a drink for Mr. Brown, who had recently gone to work for the Arnott Company, a large potential customer, and that Mr. Brown was going to help him sell the account.
>
> I told him that from the appearance of his eyes and flushed cheeks, he had all the appearances of a heavy drinker. He was reminded that he was on probation and that our patience was now exhausted.

Upon being questioned about his attitude, Longe was said to admit that the company had been most fair and that he did not blame the executives for losing patience. In explaining his condition, he stated that he had a number of domestic problems on his mind, causing him to drink liquor to

ease his worries. When told that the company would be forced to obtain another man for his position unless he improved his habits, Longe's only response was "If you do get a man to take my place, I would like to stay on with the company in some sales capacity because I feel that I have considerable knowledge and experience that could be of value to the company."

In August, 1940, the division sales manager of the Brockway Paint Company believed that the time had arrived when it was necessary to make a final decision concerning Longe's employment. In spite of Longe's actions, he had once been the company's most successful salesman and even with the change which had come over him he still possessed considerable sales ability. He agreed, moreover, with Longe's assertion that he had much knowledge and experience in the paint business which could be of value to the company if properly used. On the other hand, the sales manager believed that Longe had been given every opportunity to change his habits, and although much of the difficulty could be attributed to domestic causes, this difficulty was thought to be a problem which the company itself could not solve. The sales manager believed that since Longe had been given five years and yet continued to perform his work inadequately, no change for the better could be expected within a reasonable time.

What action should the sales manager take?

Was the seriousness of the situation in August, 1940, the result of the failure of the sales manager to act more positively at an earlier date?

84. WINGATE MANUFACTURING COMPANY. Relations with Salesmen

Wingate Manufacturing Company of Trenton, New Jersey, produced a diversified line of drug specialties and hospital supplies such as gauze, bandages, and special dressings, which had gained national acceptance over many years and were used by hospitals, doctors, and industrial concerns as well as by the general public. The company maintained a selling force of 165 men throughout the country, 45 of whom called only upon hospitals. In the less populous areas, the function of selling to hospitals was combined with selling to wholesale and retail drug outlets, but in the territories where potential sales were large, salesmen specialized upon one or the other type of account. The company had five divisions, each under the direction of a division manager. Reporting to each division manager were district managers in charge of specific territories. Also working as staff men under the division managers were supervisors who helped the salesmen with special problems. In common with all sales organizations, the Wingate Manufacturing Company had personnel problems involving its salesmen.

Aptitude tests were utilized to help select men for the salesforce. After an initial training period, a fair plan of promotion with salary increases had enabled the company to retain its salesmen for many years. Although the

product was by no means in plentiful supply during the war, enough work remained to keep the salesmen alert and the salesforce intact. As a result, when other companies started building up their salesforces at the end of the war, some attempted to hire Wingate men by offering more money or promising rapid advancement. Since Wingate was already paying fair salaries, it was not able to meet these offers with increases.

1. During 1946, Walter Brent, one of the salesmen in a southern territory, threatened repeatedly to leave the company and take a better position offered by one of these "proselyting" companies. The district manager and the sales manager, who were anxious to keep Brent in the organization, had not been wholly successful in convincing him that he should stay with Wingate. The sales manager was making a regular supervisory trip to the southern territory during the course of which he intended to have a long talk with Brent. Since he believed that constant reference to aptitude tests helped him to handle his men more efficiently, he looked over Brent's report before he left. The tests were given by a special testing organization which returned an interpretative analysis on each candidate. A copy of its report on Brent, with the portions italicized which the sales manager considered most important, follows. From his own experience with Brent, he was inclined to discount certain portions, but the italicized sentences seemed to him to be significant.

> Brent has a mental ability portrait usually associated with high-powered, highly effective, and consistently productive salesmen. Other things being equal, Brent has potentials for highly specialized or administrative responsibilities.
>
> Brent has high drive, power aggressiveness, and force. He has excellent fighting-for-business qualities. However, Brent can be too high pressure, too cold and phlegmatic, or domineering. *Brent appears to be the "lone-wolf" type of operator. He is exceedingly self-sufficient, does not like to be with people in groups, tends to and prefers to work alone.* He is inclined not to be sympathetic with the problems and difficulties of others; so that he is likely not to be helpful to other salesmen; but if in charge, he would be inclined to drive them. In his relations with customers he would be apt, because of high-pressure methods, to oversell them, to load them up. For an operation that requires calling on the same accounts again and again, this tendency would be likely to lead to difficulties, complaints, and the possible loss of future business because of the resentments that would be built up.
>
> Men with the total personality portrait of Brent often look so strong and so able to get along without help that management is inclined to leave them alone. Others, too, finding that they cannot move them, that they cannot do anything with such men, tend to let them stew in their own juice. Thus, by building up resistances in other people, such men often defeat their own ends by their very power, self-sufficiency, and domineering attitude.
>
> At the same time, Brent presents an interesting inconsistency in his total personality make-up. Although forceful and dynamic, Brent appears to be

repressed and inhibited as to all-out effort for business. *He can be stopped by the adverse criticism of his superiors, or by the frowns and disapproval of those near to him, such as his wife, whose opinion and respect he values.* It is as if, when he tries so hard and fails to get approval, he adopts the attitude—"Oh, what's the use?"

Brent does have an excellent knowledge of human nature and sense of humor. He can be kidded. He also is excellent in sizing up people and in judging their reactions as he talks with them, so that he could alter his tactics to suit the needs of the situation. But it is unlikely that he would give up trying to break down the resistance of his customer, even though he would probably be fairly tactful in his efforts.

Brent has the capacity for both long- and short-range planning, and he has good control of his emotions.

Brent has high success interest in selling and in sales management. He has love, zest, and enthusiasm for the work. He also has high success interest in advertising. He knows his way around in sales situations and has ample resources in the way of knowledge of sales techniques and strategy with which to help others. Actually, on the basis of Wingate norms, Brent has too high an interest in selling, sales management, and advertising. He would probably not be content to pound the pavements for a moderate salary all his life. *He has the total portrait of men who are apt to be lured away from their present employment by higher pay or by what appears to be better opportunities for advancement.*

Brent has the following weighted scores on Wingate norms:

Weighted Score I	5
Weighted Score II	7

These weighted scores indicate that, unless Wingate has a special place for him and can satisfy his ambitions, the chances are 7 to 5 that he will not stay, although if the management can handle him, he will probably be an average man or better.

Considering all factors, it appears that Brent would be a difficult man to handle and to satisfy, and consequently is not recommended for employment as a Wingate salesman.

After studying the report, the general sales manager believed he had discovered a clue as to the best way of dealing with Brent.

2. At about the same time in accordance with company policy of transferring men who, on the basis of their record, deserved promotion, Bill Hardy, another salesman, was given a different territory. The change meant an increase in pay of about 12% and greater opportunity for advancement. From the company's point of view, it would have been cheaper to transfer one of several other men who could have done the work just as well as Bill.

Not long after his promotion, Bill started complaining. According to him, nothing was right about his new job. When the sales manager reviewed the situation, he could find no specific cause for Bill's complaints. He thought

at first that it might have something to do with living conditions, but Bill had lived in rented quarters in his old territory and had succeeded in finding comparable accommodation in the new territory. Since no one factor seemed responsible for his dissatisfaction, the sales manager concluded that Bill was suffering from an inflated idea of his importance to the company. Bill probably thought that he was invaluable, since the company had passed over several other men, who could have been more conveniently moved, in order to give him the job. The sales manager decided that Bill believed that his bargaining power was such that, if he complained enough, he could obtain a further increase in salary.

3. A third salesman, John Riley, had been a continual management problem since he had been hired in Dallas, Texas, where he had been working as a salesman for a small, poorly managed company. Riley, who had been brought up in Minnesota, had done well on the aptitude test, was intelligent, and presented a good appearance. He had been assigned to a territory in Mississippi, where he did a good selling job, but turned out to be suspicious, hypercritical, and disposed to go about with a "chip on his shoulder." His district manager and the sales manager were unable to discover why he acted as he did. After he had been with the company for about a year and a half, they learned that he had had a difficult early life as an orphan. The experiences during his formative years seemed to provide the key to his behavior, and they decided that they ought to endeavor to increase his self-confidence. Despite their efforts, no perceptible improvement was registered. Not until a year and a half later, when the sales manager was on a regular visit to the territory, did Riley reveal what had really been troubling him. Riley was a Catholic, and he, his wife, and their two children believed that, in Mississippi, they were living in a section of religious hostility.

85. BURROUGHS ADDING MACHINE COMPANY (C). Personnel Problem

The general sales manager of the Burroughs Adding Machine Company was informed on July 20, 1950, that a salesman, James Boyle, had just been dismissed by his branch manager. The following day he received a telephone call from Mr. Boyle in which the latter claimed that he had been unfairly treated and that his case merited consideration. The general sales manager, recalling that the decision had been approved by the regional manager, told Mr. Boyle that he would not reverse the decision of the branch manager and regional manager. The former salesman then informed the general sales manager that the reason for his dismissal was a personal animosity toward him by the branch manager. Upon hearing this, although still telling Mr. Boyle the branch manager and regional manager had not exceeded their authority, the general sales manager requested the branch manager who had dismissed Mr. Boyle to send him a letter explaining his action. The regional manager, who had recently assumed that position,

was also requested to give a report on the matter. The personnel department was asked to report on the history of Mr. Boyle.

According to the personnel department's records, Mr. Boyle joined the company in 1947 at the age of 28. He was married and had two children. He was a graduate of a large university where he was a football hero. He majored in accounting and his grades were good. During the war he had reached the rank of captain in the infantry. Currently he owned his own home and had no debts. The various people who had interviewed Mr. Boyle had found him an exceptionally pleasing personality and had highly recommended him. He had passed the company accounting test with excellent results. In high school, he had reached an average grade of 90% and ranked 31 out of a class of 182. All his instructors there had rated him "excellent." A very critical interviewer of the Burroughs company had commented: "A rather unusual man and should make a very good salesman."

Mr. Boyle was employed in late 1946 and began work in January, 1947, at $60 per week. After finishing the five-weeks' training course where he was found to be average, he was assigned to a branch. On June 1, 1947, he received a $5 increase in his weekly salary. Periodic reports from the branch manager were all excellent. After one year and a half with the company, he was recommended by the branch manager for a more important assignment. On July 15, 1949, the regional manager (who was soon to be transferred) said that Mr. Boyle was handling large and important accounts and was again in line for advancement. Up to December 1 of that year, all reports received on Mr. Boyle were very favorable and encouraging. All subsequent reports from the branch manager were quite the contrary.

On December 1, 1949, the branch manager sent in a report which rated him below fair. According to this report, the reason for the newly developed lack of attentiveness and concentration was the result of a sizable outside income which had not been disclosed heretofore.

In March, 1950, Mr. Boyle went on sick leave for six weeks due to a serious illness. At the end of April after he had been back at work for two weeks, although his sales record was satisfactory, a letter from the branch manager to the personnel department stated that the writer was quite dissatisfied with Mr. Boyle's work and was extremely disappointed in his progress. Mr. Boyle was dismissed on July 20, 1950.

On July 23, 1950, the general sales manager received the letter requested from the branch manager. It stated that Mr. Boyle had a very "negligent attitude," was an "egotistical individualist," and a "chronic malcontent." "The morale of the branch was much better without him." The branch manager attributed the beginning of these troubles to the outside income which had begun in the summer of 1948 when Mrs. Boyle inherited a

sizable interest in a gold mine. The branch manager stated that the accounts to which Mr. Boyle was selling were of such a nature that they were buying from Burroughs and not from the salesman, which explained why the accounts were sold in spite of Mr. Boyle's unpleasant attitude.

The new regional manager, upon meeting Mr. Boyle in late July, 1950, was much impressed by him and informed the general sales manager that he believed Mr. Boyle had great potentialities as a successful Burroughs salesman.

86. ERIE TOBACCO COMPANY. Salesmen's Unions

The Erie Tobacco Company founded in 1902 was one of the largest wholesalers of cigarettes, cigars, soda fountain supplies, candy, and other items intended for cigar stores or candy stores in the United States. The company's marketing activities covered the Ohio industrial area which included Cleveland as well as the surrounding areas. The products handled by the company were sold primarily to candy, cigar, and drug stores, and similar retail outlets by a salesforce of 89 men.

The president of the company pointed out that aggressive unionization activities among tobacco salesmen started during the 1930's and the salesmen of the Erie Tobacco Company were finally unionized in 1939. Several reasons were given to explain this, including the fact that the chauffeurs, stock clerks, and stampers,[1] employed by the company were already members of a union. By virtue of such membership, they received annual increases in pay and other benefits which had not been awarded to the salesmen with the same regularity. The National Labor Relations Act was in full effect during this period, which prevented the management of the company from presenting its case to the men. The president believed that the underlying reason which prompted the men to unionize was a strong desire for security. According to him, this was the penalty a company had to pay for being in business a long period of time. The salesmen were no longer young men and the weaker members of the salesforce who were most active in the union efforts were particularly concerned about their future. By 1951 the salesforces of all tobacco wholesaling firms operating in this area had been unionized.

Prior to 1950, separate unions represented (a) the salesmen; (b) the stock clerks, chauffeurs, and stampers; and (c) the office help. In 1950, however, the salesmen's union joined with the stock clerks, chauffeurs, and stampers' union and formed a new local of the International Brotherhood of Teamsters, American Federation of Labor.

Although the president could perceive no benefit from having the salesforce represented by a union, he believed that this situation did not unduly

[1] Employees who glued the state tax stamps on packs of cigarettes.

interfere with company operations. The principal difficulty in dealing with the union was its refusal to contract for more than one year. Toward the end of each year's contract, the union made additional demands and threatened a strike if these demands were not met. Additional benefits had been granted each year; as a consequence the company had never experienced a strike. During the 1949–1950 contract negotiation, for example, the union made demands for an increase in pay of $10 to $15 per week in addition to other benefits. The new contract called for a $3 per week increase, plus a noncontributory health and welfare plan. In 1950, a $5.50 per week increase was granted. No pension plan was in effect although the company did operate a profit-sharing plan. Before the salesforce had been unionized, superannuated salesmen had generally, on an informal basis, received retirement payments from the company. Since the advent of the union, however, the company had discontinued making new arrangements with salesmen who retired, believing the union would demand that such an arrangement be made applicable and available to all other men on the salesforce. Under the profit-sharing plan, each man accumulated a sum of money which was given to him in cash upon retirement.

The contract with the union included several clauses which restricted in some measure the freedom of action of the company:

1. The only legitimate cause for dismissal was dishonesty. In all other cases, layoffs or discharges had to proceed on the basis of seniority.
2. All members of the salesforces who had been employed for longer than three months were compelled to become members of the union.
3. The work week was limited to five days.
4. Each man was granted a two-week vacation with pay and sick leave.
5. The company was to remain closed on Sundays and on seven specially mentioned national holidays. In addition, Christians were permitted to take Good Friday and Jews were allowed three days for Yom Kippur and Rosh Hashana.
6. The company was required to carry accident and health insurance on all men and contribute to the union welfare fund.
7. Furthermore, the company agreed to deduct the union dues from the salesman's pay.
8. To eliminate the overlapping of work which meant that salesmen were not to be required except under emergency conditions to perform the duties of a chauffeur, stock clerk, or other employee.
9. The contract also included a no-strike agreement from the union and a no-lockout agreement from the company.
10. All disputes between management and the union which could not be settled by negotiation were to be arbitrated by an impartial arbiter specified in the contract.
11. As far as compensation was concerned, the contract stipulated that every salesman who was in the company's employ for more than three months

must receive a minimum salary of $45 a week and after one year employment, this minimum was to be raised to $61 per week.

12. The salesmen were paid on a salary and commission plan and it was agreed that the same rate of commissions were to apply to all men.
13. The union agreed not to have any dealings with Erie Tobacco Company's suppliers.

In 1951 salesmen's earnings ranged between $5,500 and $6,000 per year. There were no formal established grievance procedures; disagreements were generally handled through informal discussions with the men involved and the union representative.

The management was most directly affected through the limitation of its right to discharge. Executives could not, according to the contract, change a man's assignment, for instance, from an outside to an inside selling job.

Although the contract contained nothing relating to the direction of salesmen, the president pointed out that it would be difficult to change a man's accounts or to create any new house accounts without full consent of the salesman involved. The most serious result was the fact that the company had been compelled to give annual increases to everyone on the salesforce. In the opinion of the president, many men received increases to which their performance would not have entitled them.

In conclusion, the president stated that his company had always paid the top scale in the industry and had always taken care of the superannuated salesmen. The men joined a union in response to concerted membership drives; and it would be unreasonable to expect that any one company could permanently resist such efforts in an area where the salesmen of all competing companies had been unionized.

Can the president of the Erie Tobacco Company continue to operate successfully under union restrictions?

What, if any, prerogatives of sales management must be preserved in future negotiations?

87. WHITTINGTON COMPANY, INC.

The Whittington Company, Inc., which operated throughout 11 Pacific Coast and Rocky Mountain states, manufactured a wide line of building materials. Its sales manager had given considerable thought to the manner in which his men made use of their selling time. Realizing that frequently some men failed to use their time as effectively as might reasonably be expected, in the summer of 1940 he decided to prepare an informal letter to be sent to all Whittington salesmen, calling attention to this problem.

The Whittington Company, Inc., sold its merchandise direct to architects, building contractors, dealers, and homeowners. The salesforce, which was paid straight salaries slightly above the average for the trade, was generally

recognized as one of extremely high caliber; the turnover of men was practically nil. The company prided itself upon its favorable personnel relationships, and the executives took a genuine interest in the men both as members of the organization and as individuals. The management believed that this sympathetic understanding had contributed to a high morale among the employees.

Because of these close ties, the Whittington sales manager believed that in many instances the company's methods of directing salesmen could be less formal than those used by many other companies. This attitude prevailed with respect to the supervision of the manner in which men arranged their selling time. Each man planned his own daily routine. In those cases where a salesman was obviously making an insufficient number of calls each day, the sales manager asked him to keep a minute-by-minute record of his activities during the day for a period of several weeks. He was then asked to study his records thoroughly in order to determine whether unproductive time could be reduced. Here again, however, the salesman was the sole judge as to whether the data were significant or not. He was not required to submit either his time cards or his findings to the management.

The sales manager did not believe it was advisable to conduct a detailed daily analysis of the time spent by each man in traveling from customer to customer, in waiting for interviews, in actual selling, or in the performance of other duties. Although he realized that several large oil and insurance companies had spent considerable time and money in analyzing the salesman's job and in endeavoring to eliminate waste time, he believed that the quality of Whittington salesmen was such that the same objective could be accomplished merely by calling to the attention of the men the fact that opportunity might exist for increasing productive time. It was with this idea in mind that the sales manager decided to prepare an informal letter discussing the problem.

In his letter, he proposed first to present the problem in general, pointing out that although the most desirable situation would be that in which "each of us could put in all our working minutes actually facing a prospective customer and developing a sale," usually because of the necessity for traveling and other conditions, a salesman could actually spend a relatively small part of his time in making sales. Following this introductory discussion of the frequent causes of waste in selling time, he proposed to include a table prepared by a middle-western university indicating the distribution of a wholesale salesman's time per day and per call, based upon a survey of an unidentified wholesale trade and a chart, prepared by the same university, indicating sales efforts in minutes and results in dollars for city and country salesmen. Although the sales manager realized that this material, which is reproduced in Exhibits 1 and 2, might not be illustrative of his own trade and salesmen, he believed, nevertheless, that the inclusion of such a chart

would tend to emphasize the fact that the causes of unproductive time were numerous and often were not considered seriously.

Exhibit 1. Distribution of Wholesale * Salesmen's Time per Day and per Call Made

Time elements	City salesmen †			Country salesmen ‡		
	Minutes		% of time	Minutes		% of time
	Per day	Per call		Per day	Per call	
Idle	60.0	6.3	13.5	92.4	11.3	14.7
Travel	79.0	8.3	17.5	123.4	15.1	20.4
Await interview	48.1	5.2	10.7	44.0	5.1	6.9
Broken interview	30.4	3.3	6.8	36.8	3.6	4.8
General conversation	50.5	5.0	11.1	68.0	8.0	10.9
Collecting	8.3	0.8	1.8	20.2	4.0	4.7
Making adjustments	5.3	0.9	1.7	12.7	1.7	2.3
Miscellaneous	30.8	3.2	6.5	34.0	4.0	5.4
Order taking §	32.8	3.4	7.6	99.8	12.2	16.1
Selling	99.0	11.3	22.8	83.1	10.2	13.8
Total	444.2	47.7	100.0	614.4	75.2	100.0

* The writer regrets that he is unable to designate the particular wholesale trade studied, but the cooperating firms do not desire to reveal this information.

† The data on city salesmen include 40 complete days' work of 28 individual salesmen representing six firms.

‡ The data on country salesmen include 28 complete days' work of 26 individual salesmen representing six firms.

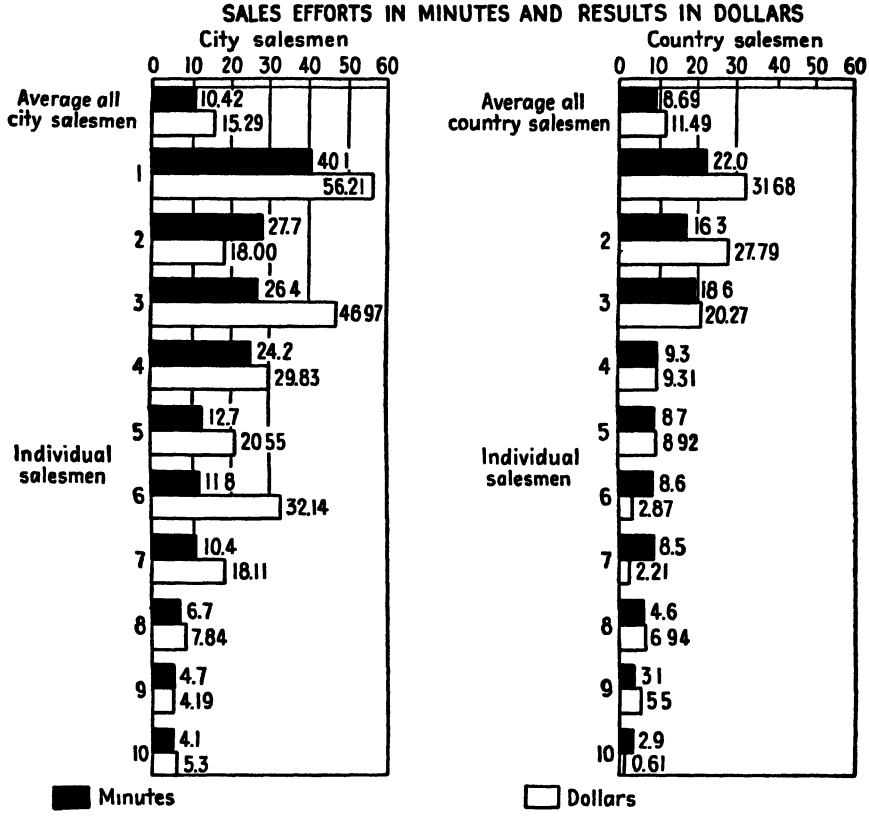
§ Order taking includes time consumed in writing up orders and does not include sales effort.

SOURCE: Herman C. Nolen, "Time and Duty Analysis of Wholesalers' Salesmen," *The Journal of Marketing*, Vol. IV, No. 3, p. 276, January, 1940.

Next, through an example taken from the life insurance business, the sales manager planned to suggest in an indirect manner that his salesmen might profit by a study of their past uses of time while on the job:

> In the insurance business, where a man must sell if he is going to eat, the life insurance groups urge (and in some instances compel) the salesman to look backward and forward periodically and study the use he *has made* of his time, and then to look forward and plan the use of his time for the next day or the next week or even a longer period. Many top-flight salesmen of my acquaintance use some variation of this time-study-planning procedure. Spending a few minutes each day to review the day's work, or an hour spent each week reviewing the week's work, will point out where (if we are sincerely seeking to improve our operations) we have consistently lost or wasted time. Knowing how easily time can be wasted, we can plan not to make the same errors next week or next month. Planning our work ahead by the week or the day will enable us to conserve time and to do a better job of time-use.

Exhibit 2. WHITTINGTON CORPORATION, INC.



SOURCE: Herman C. Nolen, "Time and Duty Analysis of Wholesalers' Salesmen," *The Journal of Marketing*, Vol. IV, No. 3, p. 277, January, 1940.

Citing several further examples from his experience over a number of years, the sales manager proposed to include a discussion of the methods which a number of salesmen had employed in reducing their travel, waiting, and idle time. These examples were to be presented in a conversational style, and every effort would be made to emphasize the fact that the illustrations were suggestions and not orders. In closing his letter, the sales manager planned to impress upon the salesman the fact that any action would be voluntary and that the company would not attempt to police any man's activities. The closing paragraphs were proposed as follows:

> This all has to be voluntary, fellows—you are free, white, and over 21 years of age; nobody can direct the use of your time by minutes and hours during the day. You have to be interested in it, and you have to do the job of analyzing and planning and sales managing yourself. If you do, and do the job conscientiously and thoroughly, I *know* it will improve your work, save your energy and

time, and I am sure, if given a trial of sixty days, you will find it improves your sales volume, too.

When I worked a territory, I found it was absolutely necessary for me to check my working time frequently enough so I could catch bad habits and time-wasters, and correct them before they became chronic. Even sitting in an office, as I do most of the time, I find it very easy to get into time-wasting habits. As a matter of fact, I had to make a couple of changes last Monday morning in order to get more work done every day.

CASES IN BRIEF

1. The Pike Chemical Company, incorporated in 1901, manufactured and sold widely diversified lines of chemical products including heavy chemicals, intermediates, plastics, medicinals and fine chemicals, insecticides, wood preservatives, solvents, and special synthetics. Its domestic and foreign organization distributed its products throughout the world.

In the spring of 1951 the generally oversold condition of the company was having its effect on the salesforce. The sales manager knew that the morale of the men suffered seriously when the company had little to sell. During World War II, the phosphate division of the company reassigned all its salesmen to duties outside the sales department. This example was not followed by the organic division, although it did contract its salesforce considerably, putting some men in the plant and keeping only a small number in the field to maintain relations with customers.

In the spring of 1950, however, the organic division started taking men off the road and by the following January, out of a salesforce of 40 men, 12 had been put to work in the research or productions departments of the company in accordance with a policy of placing such salesmen in work for which they were well qualified. The company did not have all the technical personnel needed and therefore good use was made of salesmen in the production department as supervisors. The sales manager pointed out that all men so moved were usefully occupied and although for the first few months they were somewhat disturbed by their assignment, at the end of this initial period their morale was usually quite high. The company had also brought some men into inside sales work, but others were not suitable for this type of work. However, the company could not take all its salesmen into the manufacturing operations since some of them had been removed from their technical training too long and thus could not be utilized in technical work. Furthermore, some of the salesmen did not have any technical training, since prior to 1937 the company did not have as a prerequisite for a sales position a degree in chemistry or chemical engineering.

The sales manager was particularly concerned about the morale of the salesmen who remained in the field. He recalled that it took the sales department two years before it was putting forth aggressive effort. According to him, although a buyers' market for chemicals had returned by early 1948, salesmen were not putting forth maximum effort until the middle of 1950. It was his opinion that salesmen could not maintain a high morale if they were required to call upon customers who proceeded to plead with them for additional products. According to the sales manager, under such conditions a salesman became "soft and rusty." The sales manager was concerned about this situation since customers' large inventories indicated to him that a 'buyers' market might return in the near future.

2. On September 1, 1949, the president of the MacIver Racket Company received a telegram from one of its salesmen requesting approval to serve as sales agent

for skis manufactured by another company. An immediate reply was required.

The MacIver company, located on Long Island, New York, had manufactured tennis racket frames for more than 50 years and was an established famous name in its field. In 1949 the company produced frames for squash rackets and badminton in addition to tennis, and jobbed a line of accessories related to these sports including gut, both nylon and silk, for stringing rackets, racket presses and covers, nets, balls for tennis and squash, and shuttlecocks for badminton. Sales for 1948 had been approximately $535,000. The company operated a small wood-forming factory employing craftsmen highly skilled in fabricating wood in the plied and bent forms needed in fine racket construction. The president and one member of his family owned 75% of the stock and had succeeded in freeing the factory of debt in 1947.

The president personally directed the company's market and supervised the salesforce. Its products were sold through sporting goods dealers solicited by six salesmen covering all the country east of the Rocky Mountains. Most of the salesmen handled certain lines of noncompeting athletic equipment made by other manufacturers such as golf clubs for the New England representative, and archery equipment and baseball bats for the middle-western salesman. In some cases the additional lines had been obtained with help from the MacIver president to provide the salesmen with enough products to yield an adequate living. However, in each case the president was of the opinion that MacIver rackets were the salesman's most important line because of its reputation in tennis equipment, providing the salesman with his entree into most sporting circles.

In order to direct the salesmen in carrying out promotional work and missionary selling involved in opening up new territories, the president wanted more complete control over his salesmen. He thought this would result if they were employed solely by MacIver. He believed that an independent small manufacturer's agent carrying a number of lines on a commission basis would not attempt to sell in new areas where adequate sales would not immediately be forthcoming. To this end he was currently paying a salary to his Middle Atlantic representative whose cost to the company as a per cent of sales was much higher than the salesmen on commission. At the same time he was concerned about the problems for the salesforce and the production personnel caused by the highly seasonal nature of sales. Tennis sales were strong in the spring and summer but squash and badminton racket sales in the winter were insufficient to offset the fall and winter slump.

Commissions were based on paid shipments with the result that they were often received some months after the orders. Consequently the president believed that overcoming the seasonal aspects of the salesmen's work was an urgent problem. To accomplish this, he was seeking additional products and exploring the possibilities of manufacturing or jobbing skis, skiing equipment, and certain other winter sports equipment of lower potential volume.

From time to time the president discussed sales problems involving the whole company with Mr. Charles Read, his New England sales representative in whom he had considerable confidence because of his knowledge of the sporting goods field. In a discussion with him in June, 1949, concerning the problem of finding additional products which the men could sell during the winter months, the president had pointed out that MacIver was a very small, specialized company compared with leading manufacturers in the field. It would be difficult finding funds for a major plant expansion but the company could finance the materials and finished goods inventories for any new products which could be made largely with the existing plant and woodworking equipment and employ the same skilled workmen during

those months of the year when they were not producing tennis rackets near capacity. Furthermore, any new products should be of top quality to bear the MacIver brand and he planned to have the production manager experiment with skis, toboggans, hockey sticks, and snowshoes as soon as production of tennis rackets for the current season began to decrease enough to free man power and time.

During this discussion, Read mentioned that he was thinking of looking for a good line of ski equipment to add to his own summer lines, golf clubs, and MacIver tennis rackets, and would welcome MacIver skis. The MacIver company had no experience making skis and could not assure production of them in time for the following winter although arrangements might be made to purchase them from another company for resale by the MacIver salesforce. The discussion ended with the request that Read go slowly in adding such a line since MacIver might be in position to supply them.

During the summer of 1949, the MacIver company attempted to negotiate handling the skis of another wood products manufacturer but did not arrive at a satisfactory arrangement. Meanwhile the production manager was experimenting with skis and ski poles of several designs, but it appeared that MacIver would not be able to produce good quality skis in volume soon enough for the 1949–50 winter season. It would be difficult to tell if the experimental skis would prove satisfactory until after field testing on snow. Experimental production was proceeding on toboggans and snowshoes, and hockey sticks were being put into volume production. These were believed to have limited markets.

On Thursday, September 1, 1949, the president received the following telegram from Read:

NEGOTIATING EXCLUSIVE NEW ENGLAND FOR TOMKINS MANUFACTURING COMPANY SKIS AT SATISFACTORY COMMISSION. TOMKINS REQUIRES MATTER BE SETTLED ONE WAY OR OTHER BEFORE LABOR DAY SINCE SELLING SEASON HAS STARTED. I NEED THIS LINE. WANT TO GO AHEAD UNLESS YOU CAN SUPPLY ME. PLEASE WIRE ENDICOTT HOTEL CONCORD.

The president knew Tomkins Manufacturing Company, located in Manchester, New Hampshire, as a company with a fine World War II production record manufacturing wood products, chiefly plywood parts on subcontract for certain types of bombers. He had heard that this company had experimented with skis for a few years and had begun volume production in the summer of 1948. He knew of no outstanding success by Tomkins in marketing skis and wondered why it was seeking an agent for New England, its home territory.

3. A medium-sized company manufacturing inks and adhesives stated its problem as follows: Our company operates its sales program through two main outlets: First, its own salesmen in a geographical area near the home plant, and secondly, through distributors in areas beyond the reach of our own salesmen. In between these two areas is a no man's land, which I have reserved against future expansion. Also on the fringes of the area currently covered by our salesmen, there is a great deal of business that we can gradually break into, without going further afield. In one or two of the salesmen's territories in this fringe area, the salesmen have now reached a point of saturation. Since theirs is a combination job of sales and service to industrial customers, there seems to be a point in each man's personal make-up beyond which he cannot go without losing old customers off the bottom, due to lack of service if he spends any time on the obtaining of new customers at the top. The obvious answer to this is to split the territory. These men, however, are young men and look forward to personal advancement. They have been successful or their territories would not have reached the state where the problem occurs. I have recently attempted but with little success, to obtain actual case histories on the handling of this situation. Some companies I know split territories

on a rather ruthless basis, and also circulate their men to prevent any claims of ownership of a territory by individual salesmen. I do not believe this is possible as far as the circulation of men is concerned, but we may well decide to split the territories. An alternative to this is the use of junior salesmen–senior salesmen set up, whereby each territory can remain as a separate unit, gradually absorbing young men into the expanding sales within that territory, and gradually elevating the senior salesmen towards a sales management position. The problems here are primarily ones of compensation. There are many practical problems to be encountered also, the most important of which is the degree to which responsibility for the efforts of the junior salesmen should be placed on the senior salesmen; or the reverse: how much should the home office attempt to direct the efforts of junior salesmen in a territory.

Discuss.

4. Mr. Brinson, the general sales manager of the Koro-Wood Company, was faced with the adjustment of a complaint of a salesman who felt he had been dismissed unjustly.

The Koro-Wood Company manufactured and sold building materials including lumber, patented wallboard, building papers, and contractors' supplies through jobbers and dealers in Minnesota, Wisconsin, Illinois, Indiana, and Iowa. The sales organization with headquarters in Chicago consisted of the general sales manager, 4 district managers, and 52 salesmen who operated in 27 territories in the states mentioned. When two or more men worked in one territory, one was designated as the senior salesman and placed in charge with limited authority. The senior salesman called upon and made sales to jobbers and dealers, while the junior representatives called upon architects, contractors, and prospective building owners to influence them in specifying Koro-Wood materials on the proposed job. Compensation depended in part on salaries and in part on a bonus based on the sales attributed to the man. Although junior salesmen made no direct sales, the jobs successfully solicited by them were credited to their accounts and used in computing their annual bonus.

Nominally, each district manager had full authority to hire and dismiss any salesman in his territory. In practice, however, action was rarely taken without discussing the matter with the general sales manager. Mr. Brinson was somewhat surprised, therefore, when he received a letter from the Minneapolis district manager stating that Mr. Crawford, a junior salesman under Mr. Cox, had been discharged. According to the letter, substantiated by a report from Mr. Cox, Mr. Crawford had been assigned the work of calling upon individual home contractors in a missionary capacity. The complaint stated that instead of confining his work as outlined, Mr. Crawford spent a good portion of his time soliciting dealers and making direct sales. Although the general sales manager approved the action of the district manager by letter, he requested that in the future such matters be discussed with him before action was taken.

Three days after writing the district manager, Mr. Brinson received a personal call from Mr. Crawford who felt he had received unfair treatment and wished to tell his side of the case. The request was granted, and the salesman said that, far from disobeying orders, he had done his assigned work well and had been commended for it by Mr. Cox as well as by customers and contractors. In addition, 3 months before, he had received an offer from a rival building materials manufacturer at an increase of $50 a month. He had asked Mr. Cox for advice as to the proper move. Mr. Cox had recommended that Mr. Crawford remain with Koro-Wood Company despite the offer. This advice was followed; yet within a few months his superior had brought about his dismissal. Mr. Crawford felt that he had been unjustly treated and expressed his belief that Mr. Cox was jealous because he was afraid that his position would become insecure.

Mr. Brinson attempted to investigate

the matter more thoroughly. From the district manager, he received some confirmation of Mr. Crawford's allegations. He was also acquainted with a former associate of Mr. Cox who said he had noticed the same traits when the two worked together. It was apparent that there had been a clash of personalities. The senior salesman was an able field representative, and the district manager had not committed any serious errors in judgment up to that time. Mr. Brinson feared, however, that dismissal of a capable man under circumstances causing him to be bitter might have repercussions in company relations with remaining salesmen.

5. The Koro-Wood Company compensated salesmen by paying a monthly drawing account plus an annual bonus based on sales. The general sales manager of the Koro-Wood Company, Mr. Brinson, received a letter from a district manager which stated that Mr. Loring, the salesman in an Iowa territory, was dissatisfied with the monthly drawing account. The sales manager said he would talk to Mr. Loring on his quarterly trip through the state the following week.

In the 15 years it had been used, the company's compensation plan had caused few disputes. In November, the district managers reviewed the sales history of each territory by product classes and established a minimum volume that a salesman should be expected to sell during the worst depression year. The company paid each salesman a drawing account of 4% and 5% of his minimum volume depending upon whether or not he was responsible for developing that territory. At the end of the year, a 3½% commission was paid on all sales in excess of the minimum volume. Experience showed that total compensation was divided about equally between drawing account and bonus, and a similar division was predicted for 1942.

In reviewing Mr. Loring's sales history, Mr. Brinson found that minimum volume had been set at $62,000 and sales of $125,000 were anticipated during the coming year. Inasmuch as the territory had been fully developed when Mr. Loring had received the assignment 3 years earlier, his monthly drawing account had been placed at $200 or, roughly, 4% of the minimum volume. If sales materialized as expected, Mr. Loring would earn a $2,200 bonus, making total income $4,600 for the year. Mr. Loring had protested to his district manager that a considerable proportion of his sales was to new customers; that they had been solicited by him; and that his drawing account should be increased to $250 per month. He had no objections to an increase in the territory's minimum volume to $80,000 despite the fact that his annual bonus would be reduced by the same amount as the cumulative monthly pay increase. Although the general sales manager agreed with the district manager's judgment that the drawing account was fair and properly determined, he wished to avoid any feeling that the company was unjust or not interested in employees' month-to-month financial requirements.

Thinking that there might be some obscure reason for Mr. Loring's persistence, Mr. Brinson investigated the man's personal affairs in so far as possible. He discovered that Mrs. Loring had been seriously ill for a protracted period, that the man's credit standing was excellent, and that he was highly respected in his community. His district manager reported that Mr. Loring took great pride in his work and conducted his business along sound ethical lines. With this information before him, Mr. Brinson recognized the possibility of financial difficulties and was predisposed to grant the request. The following week, however, an interview with Mr. Loring altered this impression to some extent, when he informed Mr. Brinson that there had been no family illness for over a year and stated, in response to questioning, that his financial affairs were in fair condition.

In discussing the question with Mr. Loring, Mr. Brinson pointed out that total annual payments would be approximately the same and that there were advantages to having the larger lump sum bonus rather than securing increased monthly

payments. Mr. Brinson recognized the danger to the company in having a field representative dissatisfied with his income arrangements since eventually it was certain to be reflected in customer relations and sales.

6. In what respects do the problems of conducting weekly conferences of salesmen differ from those of handling infrequent conventions? Should conferences be held? Under what conditions may salesmen's conferences become a waste of time, if not positively harmful to the work of a sales organization?

7. "The sales convention has come as a necessary factor in the handling of the large national selling organization and, because of its success in a large way, has demonstrated its value even for small sales organizations. . . . Small as well as large concerns have found it absolutely necessary to gather together the district managers, if not all the salesmen, at least once a year in order to develop best *esprit de corps* and draw by personal contact from the master minds of the business."

Discuss critically.

8. A salesman who had been doing an excellent selling job in the territory where he represented a manufacturer of paints and varnishes expected recognition therefor. It was the judgment of his superiors that he did not possess the ability to manage men and that promotion to an executive position would probably destroy a good salesman without securing a capable executive as compensation.

What recognition or promotion might be provided for such cases without increasing selling costs?

9. An association of traveling salesmen in the shoe trade asked the U.S. Treasury Department to liberalize its interpretation of allowable tax deductions for salesmen's expenses. The secretary-treasurer of the group asserted that the reason for the request was that the return for salesmen's efforts was not adequate. Quoting from a published report, the following are the remarks of the secretary:

> A salesman's first duty is to entertain a buyer. But if he takes a buyer to an expensive restaurant where dinner costs $8, for example, and the check amounts to $16, the Income Tax Bureau allows only an $8 entertainment deduction on the ground that he ate the other dinner himself. It is useless to argue that were he not entertaining the buyer he would have spent only $1 for his own dinner, in a cheaper restaurant.

The secretary cited the instance of a wholesale shoe salesman whose gross income was $20,000 a year, who recently resigned to become a buyer for a large retail concern at $8,700 a year fixed salary.

> As a buyer, he won't have to spend more than three-fourths of his income on travel, hotel rooms, car parking, models (if he is in the dress business), porter fees and all the other expenses a salesman is subjected to.

The secretary said his association was considering a proposal to ask manufacturers to allot a stipulated proportion of a salesman's expenses, such as $150 of his initial drawing in the case of a new salesman, as a promotional expense rather than as a personal expense for which the salesman becomes partially if not entirely tax-liable. He said:

> With the tremendous increase in competition within only the last year, a salesman's expenses have increased prodigiously. Formerly it was customary for a traveling man to make two trips a year, to show his spring and fall lines. But today he must see his buyers three or four or maybe half a dozen times a year, which multiplies his expenses just that many times with no material increase in business.
>
> The reason for the extra trips is that buying habits have changed. Heavier competition has made buyers more alert for fashion changes and wary of inventory commitments. Retailers demand more short-term deliveries. Right now, almost the first of February, they were still booking orders at the shoe show in Philadelphia last week for pre-Easter business.

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9. *Filling and Delivery of Orders*

While it is true that a sales transaction is not completed until the goods and services are delivered and payment made therefor, the physical distribution of goods is important to the sales department for other reasons as well. In the first place, unless orders are filled and delivered satisfactorily, ill will is engendered and it becomes increasingly difficult to develop business. Furthermore, if orders are not filled satisfactorily, the advertising effort which has been consumed in securing orders is entirely lost as is also the beneficial influence of the business upon production and other departments. Again, the sales department is usually held responsible for proper delivery, even though the physical handling of the product may be turned over to other departments in the business or to other agencies. Finally, the costs of billing, physical handling, and storage involved in getting a product to buyers may bulk large and affect favorably or adversely the ability of the seller to meet competition profitably.

A. FILLING AND DELIVERY OF ORDERS; THE SMALL-ORDER PROBLEM

The processes involved in filling and delivering orders may be roughly grouped as follows:

1. Receiving and interpreting the order.
2. Filling and billing the order. This may include many detailed operations, such as passing on the order by the credit department, making out bills for checking and shipping departments, making of invoices, shipping lists, etc., to be used in connection with the completed order.
3. Packing the order, which includes particularly the assembly of the various units and the provision and use of proper containers for shipment to the buyer.
4. Delivery of the order, including provision for both delivery to the transportation agency and delivery to the destination. Sometimes this delivery includes, in addition to internal plant or warehouse transportation, the maintenance of trucking equipment sufficient to make prompt or frequent deliveries to all customers in an area.
5. Maintenance of stocks from which orders are to be filled. The problems involved here include those of determining what products are to be stocked,

where stocks are to be maintained, and how they are to be maintained with the greatest economy consistent with necessary service to buyers.

Filling the Order. The clerical and other operations having to do with filling the order up to the point of packing and shipping make up a large portion of the work of order filling. Receiving, acknowledging, checking, billing, invoicing, and recording operations, all clerical in nature, demand many employees, and larger companies also utilize business machines of numerous types. The task of providing for the filling of orders promptly, accurately, and at low cost requires the utmost simplicity of operations and skill in performing them, supplemented by adequate checking and inspection. Promptness may require a specially trained staff and easy accessibility of finished goods. Economy requires that a balance be struck between the desires for promptness and the real needs of customers, and that accuracy be not sought at an expense which much outweighs the cost of possible errors incident to more economical methods.

The systems which have been developed for the handling of orders represent routines based upon the repetition, perhaps many thousand times a day, of sequences of operations required to secure the satisfactory filling of orders. These systems range from very simple ones in which an individual performs all or nearly all the steps; complex sequences, such as those represented by a large electrical supply house in which 91 different operations were required to fill an order; or the block system of filling orders used in certain mail-order and wholesale houses. The development of a satisfactory system has usually been the result of the process of trial and error, although at the present time techniques have been developed for determining necessary operations and for eliminating unnecessary steps.

The physical assembling of the order so that it is ready for packing is likewise performed in many ways, ranging from the most simple handling by an individual to an elaborate system of "order pickers" with mechanical conveyors and arrangements so that the various parts of a single order meet within a prescribed time limit at the packing room ready and complete for the specialized and highly skilled packing clerks.

Packing and Shipping. The problems of packing include those relating to the type of container to be used and to methods and timing of shipment. In determining the type of container to be used, the person interested in packing finds that he must choose between standard packages and special packages for each order; he must decide upon the material and design of the packing container to fit the requirements of the product and of transportation facilities; bales, boxes, crates, barrels, etc., may be used; or containers of wood, metal, fiber, burlap, cotton, and other materials may be employed. Equipment and processes are available for testing the real strength and suitability of different containers. If goods can be sold in standard lots, the problem of

repacking may be reduced to a minimum. Mechanical aids, even to the mechanical packing of cases, may be utilized in large enterprises with substantial savings. It is possible to use mass production methods in securing economy in packing.

In determining shipping methods, the executives in charge of the physical distribution of goods find a choice between parcel post shipment, express shipment, shipment by truck, railroad, or air transport to provide the economy, celerity, and certainty of transportation required by buyers. Choices are available also within each group, and in some cases different trucking lines, in other cases the routing of traffic by various railroads, may make substantial differences in service if not in costs.

Small-Order Problem. Hand-to-mouth buying presents a problem for many types of manufacturers. Though the term has often been loosely used, it refers customarily to the lessening of the size and frequency of forward orders and to the fact that orders for immediate delivery are smaller in size compared with some previous standard or average. The principal reasons for the practice are the development of attitudes of fear and caution on the part of buyers, based upon declining prices, political uncertainty, international unrest, and financial instability. Furthermore, except during the war period and a short period thereafter, it has been easier to buy on the hand-to-mouth basis, because progress in manufacturing technique permits more rapid production. Transportation and communication have immensely improved, and the carrying of spot stocks has tended to aggravate the situation. Middlemen have been attempting to keep their own stocks smaller in order to increase their rate of turnover and their rate of profit. Meanwhile the increasing number of commodities, the broader variety, the frequency in change of style and design, and the multiplication of branded articles are tending to split business up into smaller parcels. The conditions which favor hand-to-mouth buying seem likely to persist; consequently, to meet the problem various methods and policies have been devised.

The principal measures used by firms to meet the hand-to-mouth buying problem are indicated in the following outline:

A. Measures which are intended to bring about increase in average size of orders or reduction in the number of small, unprofitable, or less profitable orders.
   1. Price inducements, quantity discounts, advertising allowances.
   2. Special credit terms, postdating.
   3. Establishment of minimum-size order.
   4. Close cooperation with retailers, wholesalers, and other buyers in maintaining stocks.
   5. Less frequent solicitation of customers.
   6. Confining solicitation of orders to profitable or potentially profitable accounts or to buyers who give sizable orders.

7. Selective distribution to increase average sale.
8. Getting cooperation of retailers, wholesalers, or other buyers in reducing excessive number of small orders and shipments.
9. Improved salesmanship.
10. Combination incentives or penalties to bring about a large proportion of profitable orders.
11. Addition to or diversification of line.

B. Measures directed toward lowering the cost of soliciting or of handling orders so that losses may be decreased or profits increased on such orders.
1. Reducing the number of shipments or number of packages per order.
2. Improving and simplifying order-filling routine.
3. Changing size and types of shipping containers.
4. Changing breaking point at which carload lots are divided into small shipments.
5. Utilization of public warehouses instead of owned or leased warehouses.
6. Better routing and planning of the salesmen's work.
7. Adjusting amount and cost of solicitation of customers or classes of buyers to reduce average cost.
8. Shifting handling of small orders to wholesalers or other agencies.

C. Measures which involve increased prices, charges, or margins to defray, at least in part, the extra cost of handling small orders.
1. Charging higher price for small lots.
2. Special handling charge.
3. Larger general market.

88. HIBBARD, SPENCER, BARTLETT & COMPANY (B).[1] Improving Order Filling and Warehousing Operations (1954)

In April, 1954, Mr. Ahl, president of Hibbard, Spencer, Bartlett & Company, a large wholesale hardware firm, was concerned about the efficiency of the warehousing operation. This feeling was shared by the operating management since competition was becoming much stiffer, customers were demanding and getting more in the way of service, and labor costs were climbing.

In conversation with a visitor familiar with warehousing practice, Mr. Ahl stated that he was far from satisfied with the company's order picking operation and he felt the company should do a lot better. The men were paid almost $2 per hour. His visitor pointed out that while many warehouses were satisfied with 50 picks[2] an hour, Hibbard, Spencer was doing 54 an hour

[1] See Hibbard, Spencer, Bartlett & Company (A), p. 42, for company background.

[2] "Pick" is a warehousing term meaning the physical selection and removal of one item (a piece or a container) from stock to fill part of an order. The amount of paper work, checking and labeling involved as well as the walking that is done by the order picker varies widely in different handling and storage systems. Thus the term reflects merely an over-all rate of removal of items from stock and is not necessarily comparable between firms.

in the open-bin stock area, which was almost one a minute, and it would be difficult to do better. Mr. Ahl disagreed, however, and expressed the belief that it was the original package stock operation that was far from being good enough or it would be possible to get 75 picks hourly.

After World War II, the management felt that the size of the operations and the firm's future growth necessitated the building of new facilities. Accordingly, land was purchased in Evanston, Illinois, and a consulting engineering firm was engaged to design the building. A firm of material handling consultants was retained to assist in developing the stock layout and handling system. In June, 1948, the firm moved into the new one-story building which covered 15 acres. Here goods were stored, handled, and packed in two basic classes:

1. *Open-bin stock:* Items ordered in single units or less than case lots, such as three hatchets, one fishing rod, one box of butt hinges, or seven locks. Almost 15,000 items were carried in open-bin stock.
2. *Original-package stock:* Items ordered and shipped as originally packed by the manufacturer, including cases of glue, sets of dishes, gross of hinges, bridge table and chair set, etc. Original-package stock numbered almost 14,000 items.

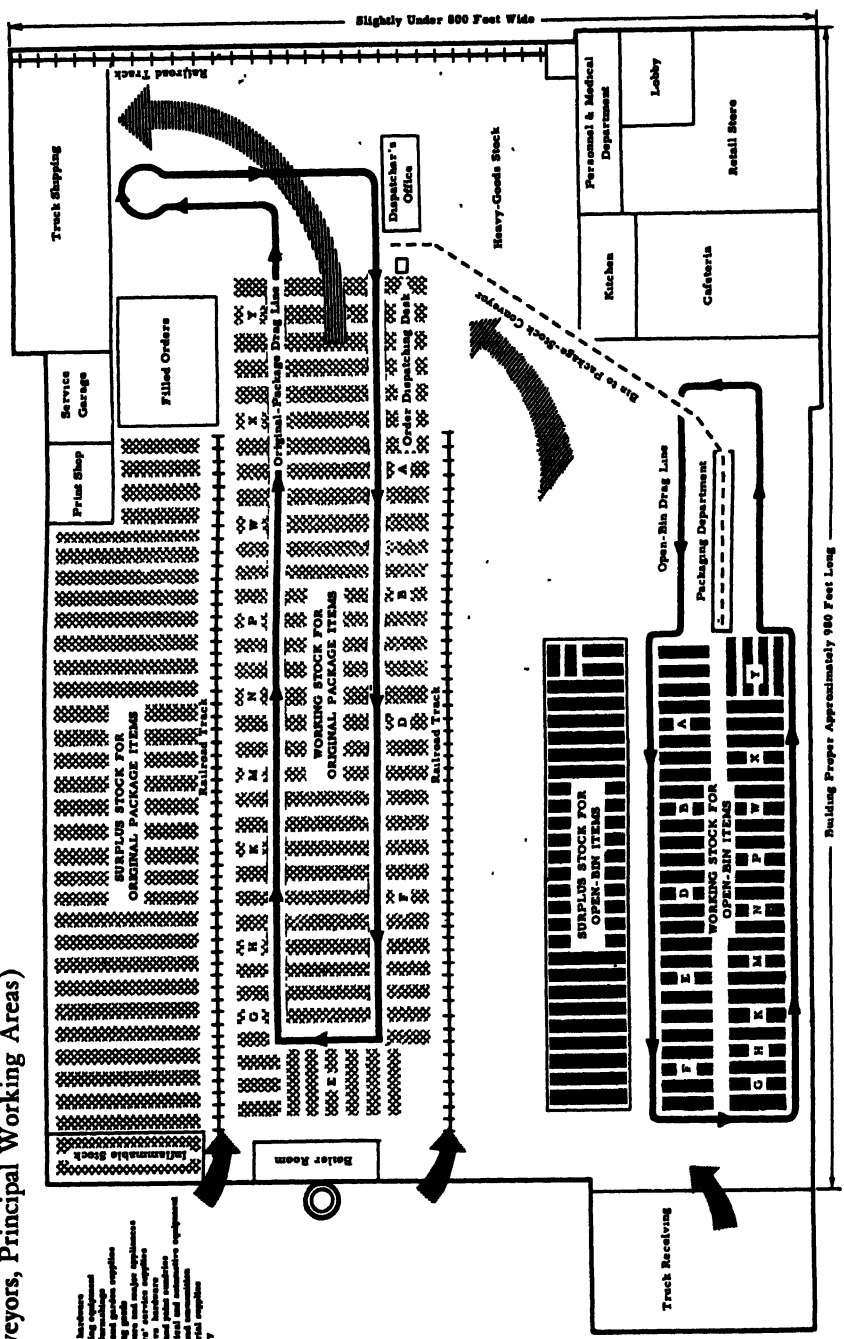
Many items were carried in both classifications; for instance, a retailer might order a single ax or a case of one dozen.

Layout and Handling System. When the warehouse was designed, it was thought that to store all the stock of each item at a given spot would scatter operations over too large an area and create excessive travel, delays in filling orders, and supervisory problems. Accordingly, stock layout was based around the concept that there should be a "working stock" area and an adjacent "surplus" stock area for each of the two classes. Orders were to be filled out of the working stock areas where items would be closely grouped to minimize travel. The surplus stock areas would be used to store incoming goods and to replenish the working stock areas whenever required. Within those working stock areas and surplus stock areas all goods were grouped by the 14 buying groups. Items were further arranged numerically by stock numbers assigned within groups by the buyers. To meet this concept, the plant was laid out as shown in Exhibit 1.

Two "draglines" (overhead trolley conveyors dragging four-wheel platform trucks rolling on the floor) were located to travel around each working stock area. A belt conveyor and adjacent packing benches served as the working area for consolidating open-bin stock items on each shipping ticket into one or more shipping cartons.

Operation of the Handling System was as follows: Goods were received on railroad cars or trucks in the areas shown on Exhibit 1. The goods were unloaded by hand and, if full package stock, were stacked on pallets that

Exhibit 1. Hibbard, Spencer, Bartlett & Company. Warehouse Layout (Stock Location, Conveyors, Principal Working Areas)



had been placed on trailers. Each pallet was loaded with items of only a single stock number. If the items were destined for open-bin stock, they were placed directly on a trailer instead of on pallets.

When each pallet or trailer load was complete, the receiving department made out a receiving ticket in three copies and glued or stapled the green copy to the pallet.

With package stock, a tractor operator hooked up a string of loaded trailers and pulled them to the surplus stock area, leaving the extra copies of the receiving ticket with the load. Here a fork truck operator removed the loaded pallets and placed them in any empty rack. The fork truck operator then filled in the rack location on the control copy of the receiving ticket and sent this ticket to the inventory control office. Here the receipt of this material and its location was entered on the perpetual inventory card.

Bin stock trailers were pulled by tractor to the bin stock surplus area. Here the head stockman and his clerks manually stored the goods in any empty bin or rack. They filled in the bin or rack location on the control copy accordingly. This copy was sent to the inventory control department, where receipt and location of the material were recorded, as was done with package stock.

Perpetual inventory records were maintained for surplus stock in both bin stock and package stock classes. Inventory then could be taken merely by counting the items in working stock areas and adding the figures obtained to the perpetual inventory totals.

Order Filling Procedure. When orders were received (largely by mail) from salesmen or customers, they were sent to the order department on the second floor. Here instructions were made up on a shipping ticket. The ticket was sent to the appropriate order filling areas, bin stock and package stock, on the warehouse floor. The group letter symbol and the stock number of each wanted item were shown on the ticket. Upon its receipt in the order filling area, the stock clerk looked over the shipping ticket to note which of the 14 groups of goods were needed to fill the particular items ordered. He then selected and arranged indicator cards bearing these particular group letters according to the sequence in which the dragline proceeded past the 14 groups of goods. The stock clerk placed these cards in a slot on the front of an empty dragline truck. He then attached this truck to the dragline and it was automatically towed through the area. The exposed card indicated the first group of goods needed to fill the order.

Order Picking in the Bin Stock Area. Originally, one clerk was assigned to each aisle in this working area who would go to the truck if he saw his group letter on it as it approached. He would pick up the shipping ticket, note the items wanted, pick them and place them on the truck. He would remove the group letter card from the truck and place it at the back of the

slot, thus revealing the next group number. In turn, this card was the signal to the appropriate clerk that an item from his group was needed to fill the order. After about six weeks this system was abandoned. Clerks stood idle close to 75% of the time while waiting for their numbers to show up on trucks.

The second approach was to divide the area into quarters, assigning several clerks to work each quarter. When a clerk saw a truck bearing the letter of any group of items stocked in his quarter, he detached the truck from the dragline and pulled it through the area assigned. Here he filled the order for all the items on the shipping ticket that were located in his area. When he had completed his job, he hooked the truck on to the dragline at any convenient point. The conveyor towed the truck to the next quarter where the process was repeated.

After about three weeks this system was abandoned. Trucks frequently piled up in the first quarter while the other three areas stood relatively idle. Often there would be a tie-up when orders piled up on any particular item or group. Aisles frequently were clogged with trucks standing idle. This further slowed order picking.

The system then introduced and still employed in April, 1954, was to have one clerk fill each order for the entire bin stock area. As an empty truck bearing a shipping ticket approached, the clerk removed the truck from the dragline and pushed or pulled it through the area, filling the order completely as he went. After filling the order, he attached the truck to the dragline at the nearest point. Some clerks wore roller skates to speed their movement.

In April, 1954, order picking in the bin stock area averaged 0.9 minutes per item or about 54 items per hour. This was a standard time for incentive purposes. It rated a "50." Picking 67 items an hour rated a "60." A 60 rating would pay a 10-cent/hour bonus. This picking time included taking the truck through the area, physically moving the items from bin to truck, marking each one "filled" on the shipping ticket, and then attaching the truck with the completed order to the dragline. The dragline towed the items to the packing area.

Here the truck was removed from the line and pushed to one side until the packers were ready. A checker first verified the accuracy of order filling. If he found any discrepancy, he called over an intercommunications system for that particular order clerk to bring the missing item to him from the area. A number then was assigned to this truck and posted on a rack, face down so that the packers who were waiting along the conveyor belt in the packing area could not see it. A packer picked up the top card from the rack as his number was called. He would look at the number of the card, then take that particular truck back to the belt conveyor line for packing. Materials were

spotted at intervals along the conveyor forming the packing stations. Empty cartons were fed into overhead racks beside each station, from a catwalk operated by one man.

The packers arranged the items, pasted labels, marked the freight class and dispatched the carton via belt conveyor system (overhead) to the shipping area. Good packers did as many as 60 orders a day, averaging about 1,200 items. The poorer packers did as little as 20 orders a day, averaging about 200 items. Originally 10 days' supply of stock had been kept in the working area. This proved to be too narrow a margin and was later increased to several weeks' supply.

Order Picking in the Package Stock Area. Here the basic system as originally applied in the bin stock section was used. However, one clerk was assigned to each of the 14 groups of goods, rather than to each aisle. Instead of bins, pallet loads were stored on racks. One pallet rack of space was assigned to each stock number. Surplus stock was grouped by item (in racks, on pallets) in the areas shown in Exhibit 1.

As in the bin stock area, a clerk looked over the shipping ticket received from the order department. He assembled the group indicator cards in sequence as a truck moving down the dragline encountered them. As a truck with a given group letter showing approached, the appropriate picker went to it and looked over the shipping ticket to see what was required. If he could get the item quickly, he allowed the truck to stay on the conveyor line while he filled the order. If any delay was anticipated or if there were more items than he could put on the truck before the conveyor would take it past him, he pulled the truck off the line until he filled the order. Then he removed the group letter card and put it at the rear of the pile of cards in the slot on the truck. He then attached the truck to the dragline. If an item called for on the shipping ticket was not in stock in this working stock area, the truck was pulled off the line to stand by until the goods were replenished. If a number of items still remained to be picked, the truck might be allowed to stay on the line. Then the missing items would be filled when the truck next came by that location.

The head stockman was expected to roam throughout the area spotting low or empty racks and calling for replenishment as he saw fit. The inventory control department would check its records and advise the head stockman as to the location of the item. The head stocker then put this number on his requisition (Exhibit 2) and gave it to the fork truck operator. The operator replenished these missing items as fast as possible.

Order picking in the package stock area averaged about 1.4 or 1.65 minutes per packaged item. This included checking the shipping order, pasting the label on the case, noting the freight classification of the material, its weight, and marking this on the tag.

Exhibit 2. HIBBARD, SPENCER, BARTLETT & COMPANY

SURPLUS STOCK REQUISITION

Requisition No. 104 Date 5-10-54

983

ITEM	No. of Pallets	Stock No.	Section
Sledges	1	T014 A	A-128
Asb Tape	1	T326 B	B-257
Netting 18"	1	T601 B	18G
Hdwe Cloth 36"	1	T622 B	14G
Screens	1	T702 B	16F

Sample

H Sorce
Stockman

402
Lift Driver

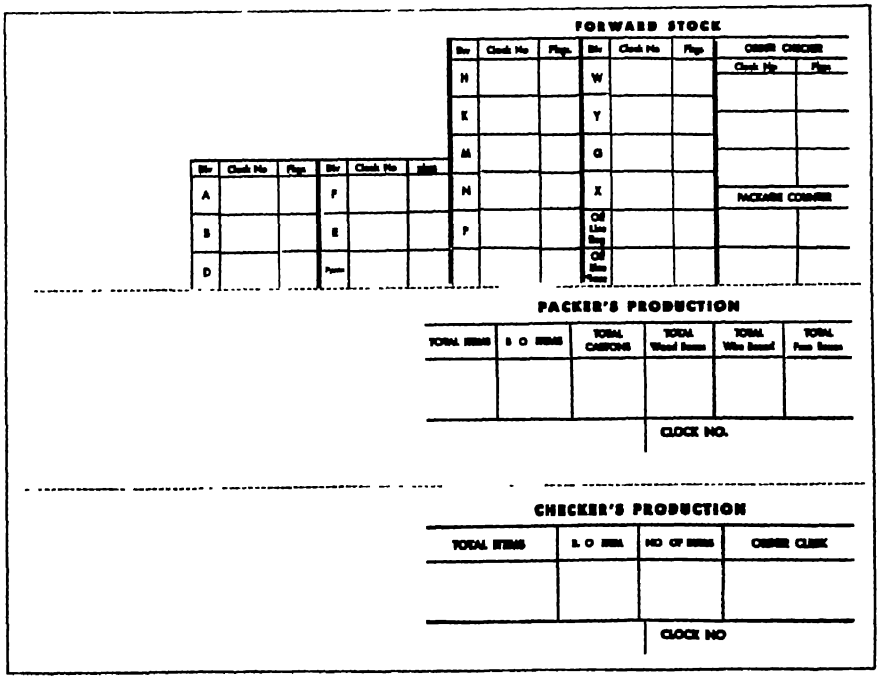
Shipping. Orders picked in the package stock section then were pulled by the dragline to the shipping desk. After being checked for accuracy, the shipping ticket and freight classification card were turned over to the shipping department and a bill of lading was prepared. The truck was pulled off the dragline and set to one side in the shipping area to wait for a motor truck common carrier or train to arrive. Such orders as could be placed on pallets conveniently were put into racks so as not to tie up the dragline conveyor trucks.

Meanwhile, cartons containing the bin stock items applying to each order were delivered by belt conveyor from the packing section of the bin stock department. These cartons were added to the balance of the order on the pallet or trailer.

Production records were kept to show: (1) number of items and orders received each day, (2) number of orders filled and shipped each day, (3) tonnage received daily, (4) tonnage shipped daily, and (5) daily production record of each individual (Exhibit 3).

Current Operations. In early 1954 consideration was being given to changing some of this system. Management felt that it took too long to fill orders. With labor nearing $2 an hour there was a strong incentive for a more eco-

Exhibit 3. HIBBARD, SPENCER, BARTLETT & COMPANY



nomical order picking operation. Since all wholesalers offered substantially the same goods at the same prices, prompt delivery was a vital sales argument. Any delays produced quick complaints from customers or salesmen.

Standing policy was that an order received one day should be in the shipping department at 10:00 a.m. the next day. However, on Mondays and Tuesdays so much mail had accumulated (the plant did not work Saturday) that orders were not filled as quickly as this policy prescribed. Occasionally salesmen would send in two days' orders in one envelope, thus imposing an additional delay.

In March, 1954, 27,100 orders were received covering 345,046 items. Orders varied daily from 22,000 items on a Monday down to 11,000–12,000 items on a Thursday. Over-all average number of items per order was believed to be 10 to 12. However, there was a large number of one-item orders and a high percentage of orders running 110 to 150 items.

A member of the operating management believed that delays in order picking in the package stock area largely resulted because dragline trucks often were held up until depleted working stock could be replenished from the surplus stock area. He remarked:

> Not all items move equally fast. It's very erratic. Sometimes you'll get no action, then suddenly there'll be a run on an item, so a minimum replenishment point for each item doesn't always work. Furthermore, these rack spaces are all the same size. You get more of one item in the space than you do of another item, yet there's just one rack space for each. We are grouping some surplus and working stock items together. Maybe we ought to do more of this.
>
> We used to be in an eight-story building and had no stock location numbers. Each division was under the buyer who had a stockman in charge of the division. Only the stock boys would know where items were. You or I couldn't fill an order. They might have pails right here and also know that they had pails three aisles over. But anyone can fill from this system because the stock numbers are located in sequence. It's fine for training new help.
>
> I still think we can make this system work better. Although we have only one clerk to each of the 14 groups, they still stand around waiting for trucks. Got 1,200 trucks now, yet look at all the empty hooks on that dragline. Look at those dragline trucks piled up with shipments waiting for carriers. Those trucks cost $100 apiece.
>
> Also, we aren't getting good picking. We have to have three checkers in this area.

89. HIBBARD, SPENCER, BARTLETT & COMPANY (C). Recommended Minimum Size of Profitable Order According to the Number of Items (1930)

Hibbard, Spencer, Bartlett & Company distributed a wide line of hardware, sporting goods, house furnishings, paints, automobile accessories, and electrical supplies in the area between Pittsburgh and the Pacific Coast. Approxi-

mately 200 country salesmen traveled the outlying territories, and 30 city salesmen sold in Chicago and nearby cities. Salesmen were allowed practically no discretion in quoting prices. All the products handled by the company were divided among 18 product departments,[1] each in the charge of a buyer who was responsible for pricing the products, watching the stock, and purchasing. The sales control system used by the company supplied a net profit figure monthly for each department.

Hibbard executives attempted to price merchandise so that every item sold would bear at least the direct costs of handling it. The number of items handled in a department during a given period, as well as the total handling costs (which were assigned to the department almost entirely directly), were available from the sales control records. The average cost of handling an item was thus obtained for the department. Over a period of time, the executives had considered the numerous lines in each department to determine what size each item sale had to be in order to provide gross margin larger than the apparent handling costs. A full-package price, broken-package price, and single-unit price for the line were established which compensated for the varying handling costs. In many cases, the minimum unit of sale was a package of a dozen, because it was apparently unprofitable to sell any smaller quantity. Relatively few competitors considered these factors in setting single-unit and broken-package prices.

Although the Hibbard executives had taken considerable trouble to price products so that the item sales would bear their direct handling costs, up to 1930 little attention had been given to the question of the profitability of orders with various numbers of items. In 1930, the National Hardware Association published a bulletin[2] which showed the results of a study made by a member of the association to determine the costs of handling orders. Excerpts from the study are quoted below:

> The firm chosen for the survey is located in a fairly thickly populated section of an eastern state. Railroad facilities in this locality are not especially good. However, good roads radiate in all directions from the city, making it possible to transport goods by truck for several miles without unusually high transportation costs.
>
> The average volume of wholesale business runs a little over one million dollars a year. About 75% of the total volume of sales is received through traveling salesmen, 10% from customers coming to the house, and 15% from mail and telephone.
>
> This firm is using the perpetual inventory system of stock control. The firm is handling a wide variety of merchandise. The chief lines are heavy hardware,

[1] Ten in 1931.

[2] Eldon Wittwer, *Cost Study of a Wholesale Hardware Business*, issued by the National Hardware Association of the United States.

builders' hardware, tools, paints and varnishes, brushes and glass, plumbing fixtures and equipment, automobile accessories, sporting goods, house furnishings, and radios.

A six-year average (1923–1928) of the total operating expenses for the firm surveyed was 19.9% compared to 19.8% for the average of 137 wholesale hardware firms in various parts of the United States. The average rate of stock-turn for the firm surveyed was 3.8 times per year, compared to 3.3 for the average of the 137 firms. A further comparison of other factors indicates that the firm surveyed is quite representative of wholesale hardware firms in the United States.

. . . . . .

One of the most interesting and profitable parts of the survey was the study of the cost of handling orders of various sizes. All orders for the year 1928 were analyzed. In all there were 43,100 orders made up of 272,868 items. The orders were all classified according to size into the following groups—orders under $5 in value, orders from $5 to $10, $10 to $15, $15 to $25, $25 to $50, and orders over $50.

It was discovered that 44% of this wholesaler's orders was under $10 each. These orders made up 13.1% of the items and 6.9% of the sales. On the other hand, 32% of the orders was over $25 each. These orders constituted practically 80% of the total sales.

The chief purpose of this detailed analysis of orders was to devise a method of working out a standard or score card by which wholesalers might measure the profitableness of their business. Through conversing with executives and employees in the various branches of the business, studying expense accounts, and carefully checking on the different operations connected with filling an order of goods, it was discovered that some expenses increased in proportion to the number of orders, regardless of the size of the order. That is, some expenses were as high on a $1 order as on a $100 order. Such expenses as postage, tele phone, a part of the office salaries and office supplies fall into this class. Other expenses depended almost entirely upon the number of items in the order. (Item here meaning line on the order.) Warehouse salaries, packing materials, advertising, buying salaries, etc., are examples of this type of expenses. A third class of expenses is affected entirely by the dollar value of the order. This class includes such expenses as interest on accounts, interest on investment, insurance, bad debts, etc. Commissions paid to salesmen are treated alone as a separate expense.

Some of the expense items as they are listed in the operating statement do not fall entirely in any one of the above classes. Such expenses must be carefully analyzed and divided among the different classes. Some may fall in two of the above classes, others in all three classes.

Each class of expense is then totaled. To get the expense per order, per item, and per dollar, we divide the total order expense by the total number of orders, the total item expense by the total number of items, and the dollar expense by the net sales.

In the firm surveyed, it was found that it cost 66 cents for handling the routine of the order itself. This expense remains constant for each order regardless of size. It cost 31 cents for handling each item, or line on the order. It cost 3.9 cents per dollar on the value of the order. The commission paid to traveling salesmen averaged 5.6 cents per dollar of net sales.

A brief word of explanation will make this point clear.

To handle the documents connected with any order, large or small, costs on the average 66 cents, when due allowance is made for office salaries and supplies, telegraph, telephone, postage, etc.

To handle one item (item meaning one line on the order) of merchandise sold at wholesale costs 31 cents on the average, when due allowance is made for warehouse salaries, interest on equipment, advertising, etc.

The 3.9 cents is made up of certain purely financial items, such as interest on accounts, insurance, bad debts, etc.

Commissions to traveling salesmen depend upon the gross margin on the goods sold. These salesmen receive 33% of the gross profit. For this particular firm the average commission was 5.6 cents on the dollar.

The statistician of the Hibbard company applied the data obtained in the study to the operating results of the company for 1929; this was easily done since the number of orders and items handled was known. Instead of the 5.6% salesmen's expense used in the study, 4.49% was used because it was the actual percentage attained by Hibbard salesmen. The total expenses, calculated with the use of the order and item cost plus the fixed percentage costs for salesmen's and financial expenses, were only $1,200 higher than the actual total expenses of the company for the year 1929. Hibbard executives believed this afforded ample proof of the relative accuracy of the figures for use by the company.

The average gross margin of the company in 1929 was 22.5% of net sales, although the gross margin attained in the different departments varied from 18% to 24% and the variation on individual items was even wider.

Using this information, the executives proceeded to calculate the necessary size of a one-item order before it would be profitable on the average. If the gross margin was 22.5%, the financing costs 3.9%, and the salesmen's costs 4.49%, 14.11% would be left to cover the expenses incident to the handling of the item and the order. According to the study, the cost of handling the order was 66 cents, and the cost of handling the item was 31 cents. Consequently, the minimum size one-item order that would be profitable on the average would be about $6.85 (97 divided by 0.1411 = 6.87). A similar analysis was made for orders having up to 10 items.

In the summer of 1930, the president of the Hibbard company sent the following letter to each salesman outlining the conclusions drawn from the analysis:

Insert This Sheet for the
First Page in Your Catalogue

HIBBARD, SPENCER, BARTLETT & COMPANY
211 East North Water Street
Chicago

July 1, 1930

TO OUR SALESMEN:

Based on a recent cost investigation the following facts have been developed. In order to avoid a loss, an order consisting of:

1	item	must amount to	$ 6.85
2	"	"	9.00
3	"	"	11.25
4	"	"	13.50
5	"	"	15.75
6	"	"	17.85
7	"	"	20.10
8	"	"	22.35
9	"	"	24.45
10	"	"	26.60

The above, of course, is based on average profit and average cost of handling.

To make an order profitable, it is necessary to exceed the figures shown above. Study this carefully. You will note that we lose money on a 5-item order, amounting to less than $15.75, but an order for $15.75, consisting of but three items, would be profitable.

We have found that retail dealers have shown a willingness to work with us and, accordingly, are printing this information on a catalogue page so that you may show it to your customers.

Your very truly,
(Signed) C. J. WHIPPLE
President

CASES IN BRIEF

1. A wholesaler of electrical merchandise, maintaining several distributing houses serving the eastern part of the United States, was faced for many years with the problem of handling small orders classified by the company as those under $5. Special studies had been made to determine the relative proportions of different size orders and the cost of handling them. Accurate determination of the expense of handling each bill was very difficult to arrive at because it varied, depending upon the weight and bulk of the merchandise ordered, the number of items in the shipment, and the necessity of allocating indirect expense. It was clear that many small orders were unprofitable as revealed even by superficial analysis. While orders in amount of $5 or less accounted for 50% of the total number of bills rendered, they represented only 3% of the total dollar volume of sales. The average size was about $2 and the average gross profit about 50 cents. Average handling cost was $7.50, and the company considered that the minimum cost per order was $1.50. Since the average gross profit per order was only 50 cents, it ap-

peared that 50% of the total bills was being handled at an average loss of $1.

The company had taken several steps in an endeavor to remedy the situation. The salesforce had been instructed to point out to dealers the advantages of maintaining complete stocks and to show that small orders were needlessly expensive from the point of view of the buyer. Furthermore, the company had revised price schedules in order to induce purchase in larger quantities. The company proposed now to establish a special routine for handling orders of less than $5 in value. Under the regular order-handling routine, 91 different operations were necessary to handle an order from the time it was received by the incoming mail department to the final operation of sending the checks received to the bank. The sizable number of operations was due to the great amount of work necessary to check and to ensure proper order filling and accuracy of accounting records. Many of the 91 operations occupied only a few seconds each, so that the complete cycle was not so complicated as was suggested by the total number. On orders of less than $5, the risks for the service and loss were small enough so that a special handling system could be devised omitting many of the checking and counterchecking operations. The proposal involved a substantial reduction in the number of operations from 91 to 39

Is the adoption of a new routine advisable?

2. Should the filling and delivery of orders be considered functions of the sales department? If not, how should the needs of the department for building up a satisfactory clientele through service be met? Does the necessity of handling both inward and outward shipments furnish a valid argument for placing the control of shipping in a separate department?

3. Where stocks of finished goods are carried ready for shipment, to what extent is the application of the principles of scientific management as related to stores systems in manufacturing establishments feasible? To what extent is the planning necessary to avoid excessive stocks and shortages the function of the sales department?

4. How can shipments be planned and scheduled when no stock is maintained? What methods may be used to ensure prompt shipment without entailing excessive costs?

5. A large jobber of electrical merchandise, located in a middle-western city and doing a business of approximately $5,000,000 annually, was disturbed by the increase in the number of small orders and the decline in the number of large orders. He asked his assistant to look into the problem. The assistant sent him a memorandum which contained in essence the following statements:

1. Sixty-two per cent of all orders was on the average below $25 and amounted to only 8% of the value of all orders.
2. Orders below $25 were unprofitable, for the gross margin on orders below $25 averaged $2; it cost usually $3.75 to accept and put through the house an order for less than $25. The average expense per order for all orders was $7.50; allowance was made, therefore, for the similar amount of work required for the small order.
3. Losses on such small orders were conservatively estimated at $150,000 a year.
4. When studied, the shrinkage in profits was found to be concentrated particularly upon three lines of merchandise; 75% of the losses on orders below $25 fell in these three classes. Furthermore, certain items within each class were more frequently found on small orders.
5. An investigation to determine whether certain classes of customers were placing most of the unprofitable orders showed that 64% of the orders below $25 came from contractor dealers, 11% from other jobbers and 9% from hardware dealers.

The remedies proposed were reduction in the expense of handling orders on the basis of careful study, and increase of size of small orders to above $25 by education of the dealer, salesmanship, and contests.

Should these recommendations have been adopted? Is the small-order problem primarily a depression problem?

6. A manufacturer of saws, machine knives, and files operated factories in Cleveland, Ohio; Pittsburgh, Pennsylvania; and Worcester, Massachusetts. His product was distributed through 11 branch offices in various parts of the United States and Canada. These sold direct to large consumers and to the retail trade. Two or three months' supplies of different lines were carried, while plant stocks amounted to four months' supply of finished material. Branch managers asked that the factory stocks be divided among the branch offices so as to increase the stocks carried at each branch.

Should the request have been granted?

7. A hardware wholesaler located in the Middle West sold some 35,000 items directly to selected hardware stores, general stores, department stores, drug stores, and other types of retail outlets throughout the greater part of the United States. The company traveled 200 salesmen who called upon their customers about once every 3 weeks. Three complete warehouse branches were maintained, one in the East and two in the Middle West. The sales-force was divided into four divisions, one at the main office and one at each of the three branches. When orders were received from salesmen or by mail from customers, they were subject to a routine procedure similar to that in general use among hardware wholesalers. The line was divided into large departments of similar items which might cover only a portion of one floor or occupy all of one or two floors. Goods were placed in bins of fairly uniform size, and surplus was kept in a reserve stock area. In each department, there were order workers and stock men; a force of stock counters worked in all departments. There were 19 order workers in all who filled the orders from the stock bins. There were 13 stock men who replenished the bins with merchandise from the reserve stock or stocked merchandise received into the bins. There were five stock counters who counted stocks, that is, made a physical count of the inventory of all the company's products; there were two shortage clerks who made sure there was not a reserve supply of the items on which the stock counters reported shortages. When an order was accepted by the credit department, it was given to an invoice clerk who entered in a space provided on the order the symbol of the department from which each item was to be obtained. Copy of the order was made out for each of these departments and sent to it. The order was given to an order worker who went from bin to bin collecting and placing in a truck the items ordered. When the order was completed, it was initialed and sent with the filled truck to the packing and shipping room. On arriving at the packing and shipping department, the various parts of the order from the different departments were combined and checked with the invoice. Stock men kept the bins stocked so that no time would be lost in filling the orders. It was the duty of the stock counters to check the stocks of every item at least once a month and report to the merchandise department where records were kept for every item showing the purchases made and the monthly inventory count. Whenever the count showed the inventory to be low, the merchandise department ordered goods to replenish the stock.

What difficulties are likely to be encountered under this system?

B. INVENTORY POLICY AND CONTROL. WAREHOUSING

The physical handling and storage of commodities in connection with the filling of orders and the consummation of sales transactions not only present

to sales executives problems of policy relating to the nature, size, and location of stocks to be carried and problems of method involving the planning and control of inventory, but also bring to the forefront problems of building, maintenance, and reduction of inventories in accordance with policies adopted by top management. Furthermore, problems of inventory, space, and handling equipment are inextricably interwoven with production policies and methods.

Most manufacturers except those operating on a custom or advance order basis must carry larger or smaller stocks of their finished products. Some manufacturers carry stocks of the most wanted items and operate on an advance order basis with others. But even on an advance order basis, a manufacturer, for instance, of men's shirts may have to carry stocks because finished garments must be accumulated from various production runs in order to fill the buyers' varied wants. It would be uneconomical for most companies, if not impossible, to adjust production and shipments to the rapid fluctuations in consumption and demand without the interposition of stock. To some extent, the function of carrying stock may be shifted by the use of middlemen; for in fact, one of the principal justifications for the existence of wholesalers and retailers is their performance of the vital function of storage. There has been some tendency over the years by wholesalers and retailers, in their endeavor to increase turnover, to try to shift maintenance and warehousing of finished stocks in the field to a large extent back to manufacturers, at times with success. The service requirements of customers, decreasing size of orders, and competitive conditions have contributed to the shifting of responsibility for the carrying of stocks required to meet ultimate buyers' demands.

No general rule as to the carrying of stocks can be laid down except that the fundamental consideration is the nature and importance of buyers' general requirements on the one hand, and the cost involved on the other, so that taking both into account, principal situations frequently require compromise on the part both of the manufacturer and of buyers. It is clear, therefore, that factors such as product requirements, size of stocks, location, as well as costs, all enter into the decision. Furthermore, performance of the storage function requires that goods be safely stored to reduce depreciation to a minimum and that the required degree of accessibility be provided to permit expeditious delivery.

Careful planning and control must be applied if stocks are to accomplish their purpose of furnishing a basis for prompt delivery and, in some situations, of reducing transport costs, if loss and waste are to be reduced to a minimum. Stocks must be so handled that the goods needed to fill orders can be obtained promptly with minimum effort. Shortages of goods, deterioration, inefficient storage and handling reduce profits and decrease a firm's ability to compete. Systems have therefore been devised to control inventory,

ranging from the simplest physical inventory with a minimum of records to complex installations involving perpetual inventory of thousands of items and using installations of punch card equipment. To choose that system and the appropriate mechanical and electrical devices which will give adequate economical control require both a clear idea of what information is really needed and careful consideration of the availability and costs of getting inventory facts.

The housing of inventory introduces further problems. The most common point at which stocks of finished goods are carried is at the plant or at the central market if the plant is relatively inaccessible. If the needs for prompt delivery are not urgent and if the time required for production processes and for transportation is short, a single central stock may be satisfactory. The central stock is usually housed in an owned or rented building, less often in public warehouses.

Where it has become necessary to maintain warehouse stocks of finished goods in the field, the choice is more difficult to make. If field stocks are to be carried, the first question to be answered concerns the location of those stocks. Shall stocks be carried in all principal cities or only at a limited number of larger centers? A number of factors determine the policy and location with regard to warehouse stocks in the field. These may be briefly enumerated as service requirements of customers, volume of sales, size of orders, transportation costs, service competitive conditions, type of product, number of products in a line, and available warehousing facilities from which choice is to be made. Because of the fixed charges involved in owning and renting a warehouse, many firms whose goods do not require special facilities are utilizing public warehousing facilities, particularly so where demands are seasonal and the amount of accommodation needed varies considerably from period to period.

The choice between types of warehousing facilities is based upon the balancing of advantages in terms of service and additional business and economy against disadvantages of cost. It is easily possible to procure data which will determine costs and savings in utilizing different types of warehouse accommodation, but it is difficult to appraise the selling advantage of the establishment of warehouse stocks or the selling disadvantage from failure to provide the service which may necessitate maintenance of field stocks.

90. TENNESSEE-OHIO SUPPLY COMPANY, INC. Inventory Control in a Medium-sized Warehousing Operation

The Tennessee-Ohio Supply Company was founded about 1925 as a wholesaler of electrical supplies. In 1954 the firm consisted of three main installations: headquarters in Chattanooga, a new and major warehouse in Knoxville, and a Cincinnati branch. Small branches also were located at Decatur, Georgia, and Memphis, Tennessee. These were considered "pickup points,"

not true warehouses. With these facilities Tennessee-Ohio Supply covered all or portions of four states, handling five principal lines, namely: switch gear (panel boards and breakers), comprising about 15% of dollar volume; poleline hardware (insulators, cross arms, lightning arresters, transformers), also comprising about 15% of dollar volume; house wiring materials which accounted for 30%; traffic appliances, representing 10%; and control equipment amounting to 30%, in 1953.

This product mix had not been constant over the years. Originally the business was founded with the idea of catering to industry and utilities. As the REA program to electrify rural areas spread through this region in 1946–1952, the sale of poleline items increased enormously and then began to decline. Meanwhile, the expansion of Knoxville into a major manufacturing city with an enormous home building program had created large increases in house wiring business during the postwar years. This business continued to remain at a high level in 1954, even though the mushroom growth of the late 1940's had ceased. The annual dollar volume of business was running in the neighborhood of $3½ million gross sales.

Mr. C. F. Thompson, founder and president, directed the business and made practically all policy decisions. In 1953 his physician ordered him to take a long rest, and he left for three months. The business continued to operate under the balance of his staff. He believed that his major interest and the proper place for him to be was at the Knoxville operation.

W. W. Wilson, secretary and treasurer, had been with Mr. Thompson for 20 years. His office was located in the Chattanooga building and he was expected to represent top management at this plant. Mr. F. Lewis was general sales manager. He had been with the firm 17 years and was in charge of the 15 salesmen. These salesmen were assigned to territories except in Knoxville, where they were assigned to accounts. They were paid by commission only. Management considered these commissions to be extremely liberal. In 1953 Mr. Thompson attended a meeting where a senior member of the National Association of Electrical Distributors discussed sales costs. Mr. Thompson was considerably interested when the speaker observed that a profitable electrical wholesale business must stay within 15% sales costs. Later, he was disturbed to find his own sales costs ran nearly as high as 20%.

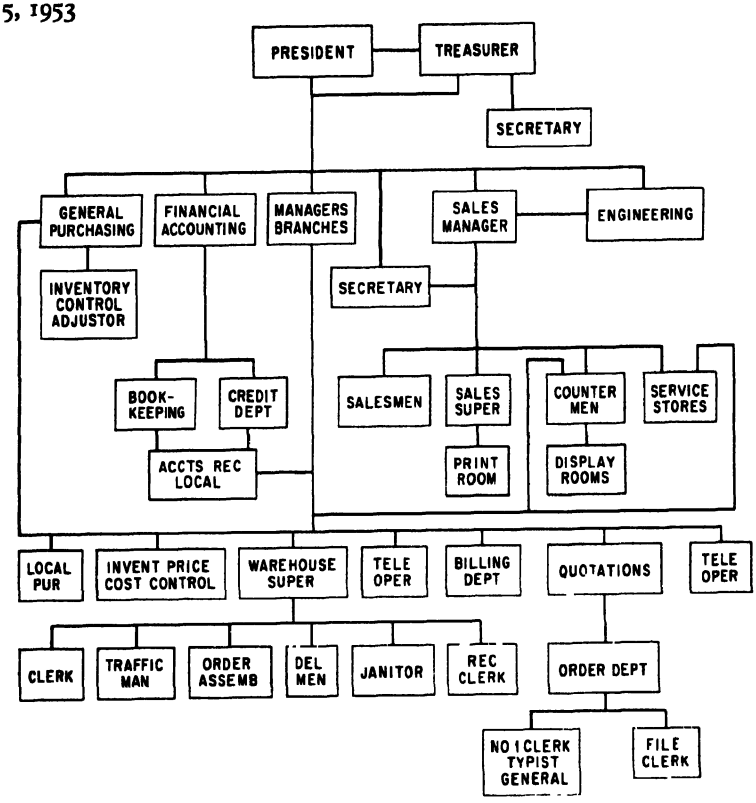
J. P. Means, general purchasing agent, was located in Knoxville. He had been with the business since 1950.

A branch manager was in charge of actual operations at each of the three principal locations. Salesmen, although assigned to areas, reported directly to the general sales manager. They would report to the branch manager only in the absence of the general sales manager.

Operating personnel and their duties are shown and described in Exhibits 1 and 2.

Approximately 20,000 items were sold by the firm, of which 11,000 were

Exhibit 1. TENNESSEE-OHIO SUPPLY COMPANY, INC. Organization Chart, September 15, 1953



stocked in its warehouses. The 9,000 items not stocked, but shipped directly from manufacturer to customer, represented about 25% of the dollar value of the gross sales.

A new warehouse had been built for the Knoxville operation in 1949. Operations were considered to be quite satisfactory at that point with the exception of inventory control.

The Chattanooga warehouse consisted of a three-story building plus basement. A single elevator served the three floors. The first floor was largely devoted to a sales counter, a display room for traffic appliances and shelf stock for over-the-counter sales of common electrical supplies such as cable, wire, switches, etc. The bulk of the stock was stored in the second and third floors and in the basement. The shipping dock comprised two dock areas, since adjacent buildings made up the warehouse and each of these contained a dock in the basement, under cover. The general offices were on the second floor in the front part of the building.

Exhibit 2(a). TENNESSEE-OHIO SUPPLY COMPANY, INC. Operations Manual

Department: Inventory Price and Cost Control — Date: May 4, 1953
Page #1

The cards must be maintained up to the minute with stock on hand, on order, cost prices, selling prices, reordering guide, maximum and minimum quantities and customer record of material on order with us but not in stock. Stock on hand is obtained from the inventory. To the inventory figures must be posted the receiving records obtained from the local purchasing clerk and if complete are sent to file clerk, otherwise back to receiving clerk. All credits for material returned to stock are also to be posted and costed and forwarded to order department.

All sales and transfers are to be posted as deductions and this information is obtained from the customer's orders, counter tickets and transfer sheets. Customer orders are then referred to our order department for re-editing.

Counter tickets are forwarded to the billing clerk. The transfer sheets are costed and forwarded to the #1 clerical typist general. Information concerning material on order is to be posted by the local purchasing department clerk from the copies of orders on factories, and same is then sent to the receiving clerk

Cost and selling prices are furnished by the ordering department. All customer orders are to be priced and costed at the proper quantity prices unless otherwise instructed.[1] Also, counter tickets and orders are to be forwarded to the billing department.

Price changes are to be posted under the direction of our order department.

The reordering guide is operated by keeping a running total of the deductions and the material received. The reordering or expediting is then done by the local purchasing department. Maximum and minimum quantities are developed by the operator from the historical record of turnover of the material.

When material stock is depleted, a back order card is inserted with the customer's name, quantity, catalogue number, price, salesman's name and our control number of order. This back order card is removed when the receiving record is posted, and then costed and forwarded to the proper customer's man in the order department.

Answer Talk-A-Phone

Compile special lists of stock on requests.

See that new pockets and cards are installed when needed.

Make spot check of merchandise in warehouse to see that same conforms with the records; in case of discrepancy, report same to management immediately.

Post monthly totals to yearly turnover record.

[1] Changed in 1954 so that pricing was done by the order editors and not by Kardex operator.

The Decatur warehouse kept only clean stock because of limited warehousing space.

Simple wooden racks and conventional metal bins were used to hold materials. Many of the larger items were piled on the floor. Rigid conduit and pipe were stacked on end along the wall of the longer truck dock in the basement. Heavy items such as reels of cable were stored in the basement. Light-weight items such as light bulbs were stored on the third floor. Three handling devices were used: (a) the elevator, (b) four-wheel hand trucks, and (c) semilive skids and jacks. Over the truck dock in the oldest building, a 1,000-pound electric hoist was mounted on a trolley which ran on a piece of I-beam extending over the shipping dock to the door. This was used to raise or lower the heavy reels of cable and, on occasion, heavy appliances such as an automatic washing machine.

Goods were laid out by types of product in various areas. For instance, house wiring items were in one location. Within this location, various types

Exhibit 2(b). TENNESSEE-OHIO SUPPLY COMPANY, INC. Operations Manual

Department: Order Editors

Date: May 4, 1953
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1. All orders are first to be approved by the credit department whether written or verbal.
2. From the credit department, they are referred to the order department where a control number is applied. The control number, the value of the order estimated, and the salesman's and customer's name recorded, all in a book kept for this purpose. (Reference to this book is of great aid in locating a customer's order.)
3. All orders are to be acknowledged with postal card form. Only customer orders requiring special handling are to be edited at this point
4. Orders are then checked for proper identification of material by the inventory price and cost control operation, and if all is in order, they are sent to the billing department.
5. Orders that the inventory price and cost control cannot complete are to be returned to the order department for checking possible equivalent substitutes or issuing of special orders on suppliers in accordance with "special order" instructions. Close cooperation must be exercised between the order department and the inventory price and cost control, so that all orders can be sent promptly to the billing department.
6. Answer telephone calls with the words "*Order Department*" and get set to receive an order. Have order pad and pencil always at your right hand and pricing service directly in front. Call the customer by name if possible. Make legible notes, be sure you understand just what the customer wants and have it written down so he will not have to be called back by anyone. If he asks for prices, record the prices you quote on the quotation form. Keep your salesman advised as to all your contacts with his customers. Do not tie up telephone lines by asking the customer to hold on or wait; you may be holding up another call and another order Telephone orders are to be handled exactly the same as regular written orders from this point on.
7. In case of a request for information concerning an order already placed, as to whether an item is in stock, delivery date, etc., you can answer such an inquiry courteously giving "approximate information" that your own experience has given you and satisfy the customer without going into a lot of detail and interrupting your associates and causing confusion that in the past has frequently been the cause of just such inquiries and caused bottlenecks, delays and interrupted the whole production line. THINK!
8. The back order tickets that the inventory price and cost control operator returns to you when the material has been received are to be marked up on your customer back orders and sent to the billing department. (All orders sent to billing department must be priced and costed.)
9. Check counter tickets as to correct pricing and costing and apply salesman's name and cash discount and send to inventory price and cost control operator who makes deductions and sends to billing department.
10. Handle manufacturers invoices and charge copy of SP orders in accordance with special order instructions.
11. Expedite SP orders in accordance with special order instructions.
12. Keep all catalogues up to date with price and descriptive information. Before destroying old price sheets, be sure a copy is in file for reference.
13. At least once every week, check with salesman all customer back orders for the purpose of developing equivalent substitutes so that salesman can keep customer advised as to status of orders when making calls.
14. Prices all credits for merchandise returned, using the lowest resale price on credits for less than $10 and negotiates for credits in excess of this amount to add a charge for the original expense in making the delivery, for restocking to include inspection, making up a receiving record, placing material in proper place in warehouse, writing up credit, typing, entering on books, adding back to inventory and mailing. Credit memorandums are then handled the same as a new order.
15. Check carefully to see that all orders are complete as to customer's order number, shipping instructions, so that wording on our invoice is exactly in accordance with customer's order and billed-to and ship-to information is complete. Indicate whether shipment is complete or partial.
16. Make quotations as directed by management.

of switch boxes were segregated from outlet plugs, etc. The actual location and arrangement of the goods was left to the warehouse supervisor, unless a special problem required consultation with the branch manager and the local and general purchasing agents.

On many items, identical or equivalent products of several manufacturers were carried. The policy was that these would be grouped together. For instance, the firm carried toggle switches made by four manufacturers. These were all warehoused in one group at one location. To avoid confusion, one manufacturer always was designated as the "principal line" for a class of items. Multiple lines of a given product were grouped together and stored under this catalog number. For the four makes of toggle switches grouped together each package was marked with the stock number of, say, Pass & Seymour. These items were also inventoried together on one single card.

The general purchasing agent stated that, although the goal was one and one-half months' supply in inventory, in April, 1954, they were much closer to two and one-half months' supply. He believed that they had approximately $415,000 inventory in stock with another $150,000 consigned. This stock was distributed about equally among the three major warehouses. Memphis carried about 5% and Decatur about 3% stock.

The ordering procedure was as follows: when the Kardex operator entered each transaction on its proper card, he was expected to note the rate of withdrawal and the amount of material on hand (see Exhibit 3). If the situation appeared to warrant reordering, he put a green flag on this card. This was to signal the attention of the local purchasing agent as he flipped through the slide files of cards each day. Wherever a green flag showed, the purchasing agent was expected to study that card and to decide when and how much to purchase, to initiate the order, and then remove the green flag.

The purchase order clerk would then prepare a purchase order in four copies:

1. Original white: this was sent to the manufacturer.
2. Blue: her own file.
3. Yellow: sent to receiving department to forewarn them of impending shipment and also as evidence that action had been taken on a short or out-of-stock item.
4. White carbon: to the general purchasing agent for his file.

The principal line catalog number under which this particular part was stocked by Tennessee-Ohio was put on all copies except the original. This number on the yellow copy then enabled the receiving department to know exactly what item this purchase order would replenish.

When shipments were received, the receiving clerk checked in the goods against his yellow copy of the purchasing order. From this copy he obtained the catalog number which was to be used as a stock number for these par-

Exhibit 3. TENNESSEE-OHIO SUPPLY COMPANY, INC. Typical Card from Inventory File

RESALE					
LESS 100	5.00 C				
100 & OVER	4.50 C				

DATE	ORDER NO.	QUANTITY	LIST PRICE	DISCOUNT	COST
~~2/19~~	~~75982~~	~~1000 13~~	7.50 C		3.60 C
~~2/10~~	~~76169~~	~~1000 13~~			
~~4/13~~	~~76957~~	~~500~~			
~~4/30~~	~~80040~~	~~1000~~			
~~6/10~~	~~80762~~	~~500~~			
~~6/30~~	~~81634~~	~~500~~			
~~11/27~~	~~7013~~	~~500~~			
~~8/29~~	~~1057~~	~~1500~~			
~~4/11~~	~~1259~~	~~500 13~~			
~~2/4~~	~~15462~~	~~500~~			
~~2/12~~	~~16552~~	~~1000~~			
~~3/2~~	~~17457~~	~~500 3/7~~			
~~3/27~~	~~19145~~	~~500~~			
~~7/2~~	~~20552~~	~~500~~			

ARTICLE

	VENDORS
1	CQ 530 C S
2	Trico 30 amp colortop plug
3	
4	

MONTHLY SALES

	1949	1950	1951	1952	1953	1954	19
JAN	961	577		7?1	1160	.330	
FEB	1259	425		2110	492	714	
MAR	715	391		651	1010	1167	.
APR	1157	.295		.515	445		
MAY	.265	787		1015	517		
JUNE	1950	1152		.390	220		
JULY	1007	920		039	010		
AUG	1560	.285		.485	1550		
SEPT	543	658		.735	890		
OCT	1657	1020		.285	945		
NOV	086	1210		.035	290		
DEC	620	500		1445	670		
TOTAL	5080	11,620		16,472	9799		

STANDARD PKG QUAN 500

CARTON QUAN

SHIP WT PER

MAX 2000 MIN 1000

ITEM

IN-OUT AND BALANCE RECORD

DATE	RECEIVED	DISB	TOTAL MONTH TO DATE	BALANCE	DATE	RECEIVED	DISB	TOTAL MONTH TO DATE	BALANCE	DATE	RECEIVED	DISB	TOTAL MONTH TO DATE	BALANCE
1/5		60	60	1313	26		60	1330	1063	3/4		60	500	349
1/5	TP	100	200	713						7		10	510	339
5		30	230	1683	2/1		20	20	1043	11		15	525	324
5		25	255	1658	1		100	120	943	11	500	10	52	1324
6		10	265	1648	1		50	70	893	12		10	515	1314
6		10	275	638	3		5	185	878	15		30	545	1284
8		75	350	1553	3		50	235	828	15		100	645	1184
8		100	450	1453	4		125	850	703	17	71	200	845	984
8		50	500	1403	8		24	3874	679	17		100	945	884
8		115	615	1288	8		10	3884	669	18	500	17	57	1384
175	BF		615	1288	9		20	4114	649	23		12	957	1372
15		50	665	1238	9		50	4164	599	23		10	967	1362
18	TP	100	765	1138	11		100	5264	499	25		100	1067	1262
18		15	780	1123	16	500		5542	999	29		100	1167	1162
18		5	785	1118	16		100	664	899					
19		100	885	1018	22		15	679	884	4/2		50	50	1112
20		10	895	1008	24		10	689	874	7		25	75	1087
20		25	920	973	26		25	714	849	7		100	175	987
21		10	930	963						7		30	205	957
22	TP	100	1030	863	3/1		100	100	749	8	500	1845		1457
22	500	12		1363	3		100	200	649	9		100	305	1357
25	TP	200	1230	1163	4	7	200	400	449	9		100	405	1257

ticular items. He marked this number on the boxes or packages with crayon. The yellow copy was then sent to the purchase order clerk, who marked her blue copy to indicate that the goods were received and also posted receipts to Kardex. If the shipment was not complete, the yellow copy was then sent back to the receiving department to await further shipment. From the type of products and the assigned stock number the receiving clerk would know the location in which to store the goods.

The bulk of the orders were sent in by the salesmen. However, some orders were written or telephoned directly by customers. About 15% to 20% of the orders was over-the-counter sales to customers who called in person. The procedure in filling other orders was as follows in 1953:

The order editors at each warehouse edited the salesmen's or the telephoned orders on a shipping ticket form. This was then sent to the Kardex operator. The Kardex operator looked up each item in a file of card slides, and made the necessary notations. He deducted the quantity from the inventory balance shown, and added the price and cost to the order. The shipping ticket then went back to the order editor for re-editing to indicate substitutions on unfilled items. The re-edited order was returned to the Kardex operator, who added price and cost on the substitute items. Following this, it was forwarded to the billing clerk.

A pre-billing system was used in which the billing clerk typed a seven-copy form invoice. Four copies were placed in a suspension tub which remained in the billing office; three copies were sent to the warehouse.

The warehouse supervisor picked up the copies of each order as received and sorted the orders according to location of the items. For instance, if the order called for any item that was stocked on the third floor, the order was placed in a pile of orders that would be sent to that floor first. If there were no third-floor orders, the order was checked for second-floor items. If there were any items stocked on the second floor, it would be placed on that pile. If not, the order would be placed in another pile, indicating that it was to be filled simply from the first or basement floors. These stacks of orders were then dispatched to their respective floors.

The warehouseman on each floor would take a given order and a four-wheel hand truck or a semilive skid. He would assemble the items ordered for that skid, then move it onto the elevator and send it down to the next floor. Here the procedure was repeated, and so on, until the loaded skid had reached the basement floor. The packer, whose scales, packing bench, postage meter and supplies were located just short of a truck shipping dock, then completed shipping preparations. Each skid might contain from one to twenty orders, depending on how many items were called for and how bulky they were. The packer rechecked the items against the invoice and consolidated orders into individual assembly bins and then into suitable shipping containers. He then set the orders aside to await shipment by the company's

own trucks, by customer truck, by common carrier motor truck, by rail freight, by railway express, or parcel post, as specified.

Each shipping order form was to be checked and initialed by three people—the warehouse assembler, the warehouse supervisor, and the packer. On an average day 125 orders were shipped, averaging close to five items per order.

Inventory control was maintained through the Kardex system. There was one card for each item, with 76 cards mounted in special holders in each sliding drawer of the card file. In April, 1954, the Kardex operator was supposed to do the following:

a. Maintain the inventory record of all items on a continuous basis.
b. Mark the resale price of each item on the cards. These prices often varied according to quantity purchased so that several prices would have to be shown.
c. "Flag" items to the attention of the purchasing agent whenever he felt that the stock on hand was deserving of replenishment in view of the amount left on hand and the rate of consumption reflected on the card.
d. Maintain a check on inventory from the file and conduct a physical inventory. At the rate of two to three slides each day, 76 cards per slide, inventory would be checked about every 30 days.

Mr. Thompson described the evolution of the inventory control system as follows:

> I put in this card system in 1934. Before that we used to have a man here who kept everything in his head. Then we began to have trouble. We'd run out. We'd always have too much or too little. I wanted inventory control even though others termed it foolish. I had the NAED (National Association of Electrical Distributors) man come in and install this Kardex system. His theory at the time was that you don't put fast-moving low-cost items on the card. Also, the warehouseman was supposed to use a "Want Book" whether the item is on a card or not. This was the way we used to do it:
>
> There was a Want Book on each floor. As the warehouseman worked in the stock, he knew which items were low or out and he would indicate this in the Want Book. The buyer was to check this Want Book every day and order accordingly.
>
> I believed that this card system could save running out into the warehouse to see if we had an item in stock. We could use an inexpensive girl to operate the system. Those fast-moving low-cost items like lock nuts, bushings, etc., were not supposed to be on cards. The warehouseman was supposed to order these through the Want Book, and to keep a decent supply on hand at all times. It wouldn't matter if we ordered a few thousand over, since the cost is so low. So originally we just used the cards for more expensive and critical items.
>
> Bit by bit this thing has gotten out of hand. We expanded the use to cover more items; then to record the cost of items; then the resale price; then daily sales tabulations; then monthly sales tabulations. The Want Book became a

scratch pad. People decided that everything ought to be on a card. If they ran out of an item once, somebody raised hell. Therefore they said, "Let's put it on a card so this doesn't happen again." Frankly, I was in sales, so I just let them run it.

When the war came along, I said, "Let's put price and cost on the card, and let's have the Kardex operator do this." Gradually the order editors lost familiarity with the catalogs, and with pricing, costing, and familiarity with the material. They didn't keep their catalogs up to date; they'd just go over to the card to get the information. That meant we needed specially-trained Kardex men. This has gotten to be darned expensive. It takes training to know thousands of items that are bought from hundreds of suppliers.

For instance, we may get low on stock from one manufacturer. The Kardex man has got to know the equivalent item and how to make substitutions. He has to have a knowledge of sales terms and the quantities for reordering for weights, getting prepaid freight, and taking advantage of discounts. So we have these highly trained men to run the Kardex system and we pay them a minimum of $300 a month. Frankly, you would have to pay at least $500 a month in New York to command equivalent talent. If we hadn't needed all this information on the card, we could have put a girl on it at $175 a month. We tried it but it wouldn't work.

Upon Mr. Thompson's return from his three months' rest, he stated:

About two years ago I was sure that there was a recession coming, so I asked my top four men to give me a list of things they thought we could do to meet a recession situation. Each sent me a list. I consolidated these lists and sent them back to our 12 best people. I asked them to look over these ideas, to think about these things, and then to give me their reactions on what we could do and ought to do. I got back some very good suggestions. Then I went away for this rest.

When I came back, nothing had happened. Not one single thing had been done. Nobody had taken any initiative. So I decided I had to do something.

I had an organization chart made up (Exhibit 1) and an operations manual prepared. But you just can't hand that out and expect people to read it. They just won't do it. You've got to go over it with them, item by item, and make sure they understand each step in the operations manual. Then you've got to make sure they do it.

One thing that's been out of line is this inventory situation. Those cards are running away with us. We lean on them too much. I will tell you something I've done since I returned. I've taken pricing off the cards. We keep too many items on the cards. That's the next step. I'm going to get more items off these cards entirely. I'm also going to try to work with my management people here to see if I can get them really to do something about improving our operations.

91. KYLE-MAY, INCORPORATED. Functions of a Wholesaler's Branch Installation

In April, 1954, the management of Kyle-May, Inc., was considering a revision of warehouse operation and customer servicing for its Springfield

branch. The firm had been founded in 1923 to sell at wholesale electrical appliances, particularly radios. Because of a strong belief in independent operation, the company adopted the policy that no single supplier would become the source of more than 20% of its business. Over the years the firm prospered and at the time this question arose it represented 61 manufacturers, most of whom were in the household appliance, television, heating, and air conditioning lines. Approximately 2,900 items were stocked and sold to retailers in three states. Of its 300 employees, 70 were salesmen on commission; another 27 were outside servicemen.

In 1951 the firm moved into a new warehouse, office, display and showroom building, covering 125,000 sq. ft., located on the west side of a large metropolitan area. Approximately 20% of the company's business was done within a 15-mile radius of city hall. Beyond the 15-mile radius public carriers were used. The great bulk of deliveries was by motor truck but the majority of incoming goods arrived by rail, usually in carload lots.

The company owned nine trucks, eight 2-ton trucks, one with an 18-foot body, four 14-foot bodies, and three 12-foot bodies; and one 4-ton truck with a 20-foot body. It also rented four 1½-ton trucks two of which had 14-foot bodies and two had 12-foot bodies. This equipment was operated by 26 men, a driver and helper being assigned to each vehicle. Two contract haulers whose basic use was to pull heavy equipment such as air conditioners and heaters gave almost 100% of their time to the company. They had the advantage of being able to add extra man power and equipment to handle the heavy pieces which ran from 350 to 2,500 pounds in weight. The company's own drivers, helpers, and 23 warehousemen were unionized. It was believed that this combination of owned, rented, and contracted haul equipment provided excellent flexibility to meet changing volumes of shipments as well as variations in types of goods.

The company's organization consisted of a president, vice president and general sales manager, secretary-treasurer, and a general manager who was final purchasing authority and in charge of all phases of the operation except selling. Five sales divisions, each under a product manager who was responsible for purchasing and selling, were organized by lines and types of products. Two product managers reported to the president, two to the vice president, and one to the secretary-treasurer. The operations manager was the general assistant to the general manager who had credit, billing, accounting, service, parts, and warehousing and shipping activities under his control.

The company, located in a major marketing area of the East with a high population concentration, had a large geographical territory covering most of three states. The main office and warehouse serviced the major portion of the territory. However, there were several smaller cities within the territory and at least two of them were basic distributing points. Accordingly, branch operations were necessary in these two cities. At Lancaster, the second largest

city in the territory, 90 miles from the home office, there was a full operation duplicating on a smaller scale all the facilities and services of the main plant.

In April, 1952, a branch had been opened at Bedford, the third major area in the territory, 50 miles from the main office, where 9,000 sq. ft. was rented in a warehouse at a cost of $450 monthly. Two warehousemen at $70 a week and three clerks at $75 a week operated this division under the control of the regional sales manager who was in charge of eight salesmen covering 10 counties. Although a service supervisor also was located in the branch, it did not have a showroom or a stock of parts and carried less than 50% of the items which the firm handled. In many instances these were impulse items but the larger appliances, heating equipment, and air conditioning equipment were not stocked here because of limited space.

It was expected that this warehouse would be stocked by direct railroad car shipments from the factories. However, space requirements limited effectiveness of such direct shipment plans; therefore approximately one truck a day was used to feed this warehouse from the home office warehouse in addition to direct car shipments. Warehouse space frequently was a problem because there was not enough room for a complete carload and because many deliveries depended upon dealer pick-up. Dealers often were slow in their pick-ups or picked up a few items at a time, thus further cramping warehouse space. These difficulties prevented the maintenance of a well-rounded stock.

After observing this operation for a year, the management decided that a different procedure was necessary. It appeared that the regional manager could not be reasonably expected to run an internal operation. At the same time, none of the three clerks would make good managers. Furthermore, the lines of stock of 61 manufacturers were too extensive to warehouse economically on a small scale. Accordingly a new plan was considered:

1. Deliveries were to be made directly to dealers' establishments from the large warehouse at the main office. This would give dealers access to full stock. It was felt that some charge for this service should be made, at least on orders of less than $500.
2. 5,000 sq. ft. of space at $300 a month would be rented to be distributed as follows: 2,100 sq. ft. for showroom; 2,100 sq. ft. meeting space and pick-up stock space; 800 sq. ft. as pick-up space for dealer orders and parts stock.
3. Operations were to be manned by one key clerk at $85 a week and one assistant clerk at $65 to $70 a week, who would assist dealers in loading merchandise from the emergency pick-up stock together with one service supervisor to operate the parts stock and assist dealers' servicemen with their problems.
4. Basement space was available for small service facilities, and a concession might be given to some local service group.
5. Most of the deliveries were to be made by the company's own trucks with some public carrier deliveries for outlying and special runs.

6. A private telephone line between Bedford and the main office warehouse would be added. This would provide close contact with the sales policy people and with those having full-service knowledge. It would also be possible to shift customers directly to the home office whenever difficult or special questions arose.

The Bedford branch did about 10% of the gross company business in servicing dealer outlets. Initially it would require approximately one truck a day to some part of the territory and it was anticipated that two trucks per day would be the ultimate schedule. It was planned to offer the dealer the assurance of delivery on a specified day each week rather than at a specified time after his order. This would probably necessitate the purchase of additional equipment.

The management expected to obtain a number of advantages from this arrangement. In addition to simplifying the warehousing problem, it provided a wholesale showroom which it considered essential and of major importance for a distributor of multiple lines. Dealers would probably prefer to have direct delivery at no charge on orders of over $500. It appeared that better service could be provided out of one main installation than through a small warehouse that attempted to duplicate all the facilities of the home plant. Some operating economies were obvious. Delivery costs should be offset by rent reduction, warehouse labor wages, duplication of telephone calls, and simplified credit handling. There would also be some work simplification in the writing of orders. A showroom and the supply of parts were considered of prime importance to the dealers. This function would now be added and improved. Furthermore, the expense of hiring facilities for dealer meetings and shows would be eliminated since the new arrangement would provide for these activities.

During April, 1954, experiments had been made in supplying the city of Mansville, the fourth major area of the territory, by direct shipments from the home office rather than from the Bedford branch. Approximately two runs per week from the home office serviced these dealer outlets, which were limited to one county. These tests looked promising but were not conclusive.

It seemed unnecessary to consider this new program for introduction at Lancaster. Deliveries here were limited to the confines of the city. The competitive situation had not yet forced broader delivery service. Relatively more warehouse space was available than at Bedford and this was economically feasible because the area served by Lancaster was larger.

On the negative side, the management realized that dealers would not have full stock for immediate pick-up. This could result in a lag in delivery to the consumer. More nebulous, but perhaps more serious, was the effect on dealer relationships with the possible development of feeling among dealers that they must look toward a distant metropolitan area for

help and supply and that they had lost a local source with which they had a close personal acquaintanceship. A great deal would depend on the ability to get across to the dealer the advantages to him that were intrinsic in the new plan.

As the Operations Manager stated it:

> This is a complete reversal of our original program. Oversimplifying it a bit, we thought we needed a warehouse. Now we're beginning to think that we really needed a showroom. Further, direct delivery to the dealers is becoming an increasing factor in wholesale sales. With narrowing margins of profit, operating economies must be accomplished to permit rendering such service.

92. TRAGER COMPANY. Warehousing and Distributors' Costs

The Trager Company, located in Schenectady, New York, manufactured a line of small tools, cutters, reamers, taps, dies, gauges, etc., which was sold by its salesmen to manufacturers and industrial suppliers. Trager seldom gave a distributor an exclusive territory, and usually within any area there were several distributors as well as company salesmen selling its products. The latter were supposed to concentrate on those customers who purchased more than $5,000 worth of supplies a year from Trager, while the distributors handled the smaller accounts. Because of reciprocal buying practices, frequently plants purchased both from the company salesmen and from suppliers. The salesmen spent a considerable amount of their time working with distributors and with distributors' customers. On the average, over a period of several years 26.2% of sales was made to distributors and 73.8% was sold direct to manufacturers. In order to provide more efficient service in these important industrial territories, the company operated five large warehouses in Pittsburgh, Philadelphia, Detroit, Cleveland, and Chicago. All were company-owned but the Pittsburgh warehouse which was rented. Within the areas serviced by warehouses, the company had 34 salesmen and sold through 87 distributors; in the remaining districts there were 103 distributors, and the company had 14 of its own salesmen. In 1942, a study of costs of distribution had been made in order to provide data which would enable the management to decide upon the most efficient method of future operation.

The Chicago warehouse serviced the largest district from the point of view of size and sales volume. This district included the Upper Peninsula, and Berien County in Michigan, Indiana, Illinois, western Kentucky, Missouri, Iowa, Wisconsin, Minnesota, North and South Dakota, Nebraska, Kansas, Oklahoma, Colorado, eastern Wyoming, and two counties in northwestern Arkansas. It had been established because of the large sales volume, the distance from the plant in Schenectady, and the competitive situation in the area. It was not large enough to carry complete stocks or to keep on hand distributors' requirements except for emergency quantities. While

it was situated reasonably well with relation to the local market, and very well with regard to railroad facilities, it was some distance from downtown Chicago. This location imposed a hardship on many of the warehouse personnel and visitors to the warehouse.

The Philadelphia territory embraced eastern Pennsylvania, southern New Jersey, Delaware, and Maryland. The warehouse had been established when the company began to emphasize direct selling in place of indirect selling in its major markets. Since designed to provide facilities for direct selling, it was entirely adequate in size.

The Detroit warehouse serviced the state of Michigan, with the exception of the Upper Peninsula and Berien counties which were serviced by the Chicago warehouse. This warehouse had been built to provide the service required to satisfy the demands of the large-volume, strongly competitive Detroit market where satisfactory progress could not have been made without prompt deliveries and efficient service afforded by local warehousing. The Cleveland warehouse served Ohio, except for the portion in the Pittsburgh territory, eastern Kentucky, and several counties in southeastern Indiana. It had been established not so much because of the need to improve service to customers, as because of the inability of Trager to obtain a satisfactory distributor. The Pittsburgh warehouse served western Pennsylvania, West Virginia, and a few counties in Ohio. It had been established because there were a number of large accounts entitled to preferred discounts, which the Trager distributors were unwilling to quote. Through this warehouse, the company was able to compete more favorably with its principal competitors who sold direct in this area. New England, New York, northern New Jersey, the West Coast, and the South were serviced from the company's plant at Schenectady.

Although there had been some decline in the years between 1933 and 1940, on the average about 68.6% of the company's business came from warehouse districts. In 1933, the percentage had been 70.2%, while in 1940 it was 65.4%. An additional 24.7% came from sections such as New England, New York, and northern New Jersey, that were easily served from Schenectady. The remaining 6.7% of the company's business originated in the South, Southwest, and the Far West, where markets were too thinly spread to permit warehousing at reasonable costs.

Although the warehouses had been established primarily to overcome the handicap of Schenectady's location with respect to the principal markets and to provide quick service in these areas, not all deliveries within a district were made from the warehouses as Exhibit 1 reveals.

Three of the warehouses, those in Cleveland, Detroit, and Philadelphia, were also used by a subsidiary of the Trager Company, which had its own sales and distribution system. In return for space, trucking, and other services rendered, this subsidiary paid rent and trucking charges at established

Exhibit 1. TRAGER COMPANY. Warehouse Deliveries

	Average yearly total district sales	Average yearly sales delivered from warehouse	Warehouse deliveries, % of total sales	Average yearly sales delivered from Schenectady	Schenectady deliveries, % of total sales
Chicago	$2,960,357	$1,427,969	48.2	$1,532,387	51.8
Philadelphia	1,121,346	464,093	41.4	657,253	58.6
Detroit	2,037,069	1,586,722	77.9	450,347	22.1
Cleveland	658,157	298,049	45.3	360,109	54.7
Pittsburgh	745,675	403,500	54.1	342,175	45.9
Total	$7,522,604	$4,180,333	55.6	$3,342,271	44.4

rates. The money received was applied as a credit against the cost of operation of the warehouse. Credits obtained from this arrangement were as shown in Exhibit 2.

Exhibit 2. TRAGER COMPANY. Warehouse Credits

Warehouse	Average yearly gross operating expense	Credit from subsidiary	% of total expense
Philadelphia	$ 56,686	$ 3,909	6.9
Detroit	119,986	5,688	4.7
Cleveland	33,967	6,058	17.8
Total	$210,639	$15,655	7.4

The relations between sales and inventories were fairly uniform for the various warehouses as indicated by the figures in Exhibit 3.

Exhibit 3. TRAGER COMPANY. Warehouse Sales and Inventories

Warehouse	Average yearly warehouse sales	% of total warehouse sales	Average yearly warehouse inventories	% of total warehouse inventory	Inventory turnover
Chicago	$1,427,969	34.2	$ 445,887	35.6	3.2 to 1
Philadelphia	464,093	11.1	117,679	9.4	3.9 to 1
Detroit	1,586,722	38.0	513,825	41.0	3.1 to 1
Cleveland	298,049	7.1	83,269	6.6	3.6 to 1
Pittsburgh	403,500	9.6	93,080	7.4	4.3 to 1
Total	$4,180,333	100.0	$1,253,740	100.0	3.3 to 1

Exhibit 4. TRAGER COMPANY. Warehouse Sales, Warehouse Costs, and Warehouse Costs per $100 of Sales

Year	Chicago			Philadelphia			Detroit			Cleveland			Pittsburgh			Total		
	Sales	Cost per $100 of sales	Cost	Sales	Cost per $100 of sales	Cost	Sales	Cost per $100 of sales	Cost	Sales	Cost per $100 of sales	Cost	Sales	Cost per $100 of sales	Cost	Sales	Cost per $100 of sales	Cost
1933	$ 768,428	$11 72	$ 90,050	$ 257,475	$18 61	$ 47,914	$ 827,508	$10 72	$ 88,756	$ 111,201	$17 88	$ 19,880	$ 214,021	$12 72	$ 27,227	$ 2,178,726	$12 57	$ 273,836
1934	929,965	11 90	110,681	282,275	18 30	51,808	1,328,731	7 86	104,487	100,417	12 49	21,161	217,633	11 73	25,524	2,028,021	10 71	313,651
1935	1,379,826	8 70	120,113	462,113	11 07	51,138	1,730,525	6 21	108,032	230,513	9 84	22,672	334,326	7 86	26,289	4,146,303	7 92	328,244
1936	1,753,635	8 30	145,554	525,630	10 07	52,031	1,971,708	5 91	117,122	200,216	10 24	20,733	493,057	6 61	32,588	5,034,270	7 51	377,928
1937	1,934,970	8 21	158,807	550,797	10 35	56,997	2,240,041	6 01	134,530	372,395	9 53	35,471	585,085	6 52	38,128	5,683,288	7 46	424,032
1938	1,083,728	9 92	107,470	310,027	14 64	45,533	960,700	10 75	103,252	226 583	13 09	29,051	263,190	12 61	33,170	2,845,197	11 22	319,085
1939	1,641,508	8 25	135,479	516,355	9 93	51,268	1,589,632	7 52	119,567	374,752	7 68	28,806	506,033	6 17	31,218	4,628,370	7 92	366,338
1940	1,931,603	7 14	137,910	807,169	7 36	59,380	2,035,782	6 11	124,408	600,279	5 75	35,051	614,652	5 67	34,836	5,998,485	6 53	391,585
Total	$11,423,753		$1,006,163	$3,712,741		$417,050	$12,003,777		$900,063	$2,384,383		$222,425	$3,228,006		$248,080	$33,442,660		$2,794,699
Average.	$ 1,427,969	$ 8 81	$ 125,770	$ 464,093	$11 23	$ 52,132	$ 1,580,722	$ 7 00	$112,509	$ 208,040	$ 9 33	$ 27,803	$ 403,500	$ 7 71	$ 31,123	$ 4,180,333	$ 8 36	$ 349,337

One reason for the smaller stock-turn for Detroit of 3.1 to 1 was the requirement for superservice which was characteristic of that particular market.

Exhibit 4 shows sales, costs, and corresponding warehouse and office costs per $100 of net sales for all warehouses for the years 1933–1940. Warehousing costs included warehouse and office salaries (but not salesmen's salaries and expenses), outgoing transportation costs, and all other expenses incidental to warehouse operation and maintenance. Costs for all warehouses averaged from $6.53 to $12.57 per $100 of net warehouse sales. The cost varied inversely as the sales volume, being lowest in years of high sales, and highest in years of low sales. This was, of course, due to the fact that certain expenses continued unchanged although volume might fluctuate widely. Much of the difference in the cost-sales relation as between individual warehouses was due to variance in the company's investment in fixed assets at the several locations as evident from a comparison of the original costs and the 1942 book values of the warehouses and their equipment with the average sales volume through each of them (Exhibit 5).

Exhibit 5. TRAGER COMPANY. Investment in Warehouses, 1942

Warehouse	Original cost *	Present book value	% Depreciated	Average yearly sales, 1933–1940	Original cost per $100 of sales	Present book value per $100 of sales
Chicago	$320,119	$220,616	31.1	$1,427,969	$22 42	$15 45
Philadelphia	348,189	247,843	28.8	464,093	75.03	53.40
Detroit	484,372	327,345	32.4	1,586,722	30.53	20 63
Cleveland . .	129,221	80,807	37.5	298,049	43.36	27.11

* Includes land, railroad siding, buildings, building fixtures, machinery, office furniture, office machinery, and motor vehicles.

Costs were broken down between controllable and noncontrollable expenses (Exhibits 6, 7, 8). The major items of controllable costs were office salaries and warehouse salaries, transportation (including transportation outward, trucking, handling local business, postage, trucking salaries, and all automobile costs), telephone, telegraph, and teletype, and heat for building. Since the Pittsburgh warehouse used rented quarters, such items of noncontrollable costs as taxes on land and building and charges for depreciation on buildings were eliminated.

Exhibit 9 shows a comparison between costs of rented and owned warehouses. For the purpose of comparing costs, data were grouped for Philadelphia and Cleveland. The three units were reasonably comparable with regard to sales volume. Values were averaged for the years 1933 to 1940,

Exhibit 6. TRAGER COMPANY. Breakdown of Controllable Costs—Trager Warehouses.
8-year Average, 1933–1940, Inclusive

	Chicago		Philadelphia		Detroit		Cleveland		Pittsburgh		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Power and light	$ 1.187	1 2	$ 808	2 0	$ 2 357	2 4	$ 749	3 0			$ 5.101	1 8
Fuel (gas)	283	0 3	115	0 3	218	0 2	132	0 5	$ 22		770	0 3
Packing materials	1.714	1 7	373	0 9	1.830	1 9	319	1 3	188	0 7	4.424	1 5
Printed forms	1,834	1 9	523	1 3	1.348	1 4	376	1 5	256	0 9	4 337	1 5
Bushing materials	171	0 2	194	0 5	142	0 1	24	0 1	46		577	0 2
Miscellaneous supplies	1.641	1 7	668	1 7	1.289	1 3	409	1 7	359	1 3	4 366	1 5
Trucking and handling local business					2.686	2 8					2,686	0 9
Transportation outward	26.547	27 0	2 760	6 8	7.397	7 7	2.090	8.5	1.226	4 7	40.020	13 9
Telephone, telegraph, teletype	3.902	4 0	2 152	5 3	4.548	4 7	1.190	4 8	1.230	4 7	13.022	4 5
Travel expense	390	0 4	79	0 2	182	0 2	52	0.2	21		724	0 3
Postage	3.279	3 3	806	2 0	1.674	1 7	460	1.9	282	1 0	6.501	2 3
Memberships and bureau service	382	0 4	271	0 7	469	0 5	178	0.7	326	1 2	1.626	0 6
Miscellaneous insurance premiums	106	0 1	185	0 5	232	0 2	54	0.2	44		621	0 2
Donations	165	0 2	139	0 3	185	0 2		..		.	489	0 2
Miscellaneous expense	1.374	1 4	477	1 2	1.429	1 5	246	1.0	404	1 5	3.930	1 4
Sweeping and cleaning	73		167	0 4	431	0 4	46	0 2			717	0 2
Repairs and minor replacement tools, furniture, appliances	601	0 6	287	0 7	487	0 5	102	0 4	120	0 4	1.597	0 6
Repairs to brass numbered equipment	459	0 5	184	0 5	771	0 8	82	0 3	4		1.500	0.5
Maintenance and repairs to building	717	0 7	869	2 2	2.549	2 6	439	1 8	5		4.579	1 6
Heat for building	1.526	1 6	1.723	4 3	2.895	3 0	745	3 0			6.889	2 4
Automobile repairs			76	0 2	131	0 1	170	0 7	15		392	0 1
Depreciation and insurance (auto)			368	1 9	767	0 8	367	1 5	378	1 4	1 880	0 7
Auto expense			458	1 1	1.307	1 4	603	2 4	447	1 6	2.815	1 0
Additions to tools, furniture, appliances	50		26		61		22	0 1	2		161	0 1
Lunches	124	0 1									124	
Maintenance and repairs to building paint							242	1 0			242	0 1
Advertising									20		20	
Rent									5.308	19 1	5.308	1 8
Light for building									185	0 7	185	0 06
Office salaries	32.855	33 4	16.128	39 9	29.694	30 8	9.639	39 0	10.426	37 8	98.742	34.4
Warehouse salaries	18,605	18 9	8.541	21 1	27.348	29 0	4.266	17 3	4,834	17 4	63.594	22 1
Trucking salaries	437	0 4	2,001	5 0	3.845	4 0	1,680	6 8	1,546	5 6	9,509	3 3
Total controllable costs *	$98.422	100 0	$40.378	100 0	$96,272	100 2	$24.682	99 9	$27,694	100 0	$287,448	100.0

* The costs will not agree exactly with those shown in Exhibits 4 and 8 due to the impossibility of applying certain credits to individual items.

Exhibit 7. TRAGER COMPANY. Breakdown of Noncontrollable Costs—Trager Warehouses. 8-year Average, 1933–1940, Inclusive

	Chicago		Philadelphia		Detroit		Cleveland		Pittsburgh		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Depreciation on furniture and office machinery	$ 908	3.2	$ 699	4.5	$ 626	2.8	$ 218	2.7	$ 242	7.8	$ 2,693	3.5
Depreciation on machinery and equipment	2,893	10.3	2,198	14.2	2,76-	12.2	429	5.3	205	6.5	8,492	10.9
Taxes on personal property	2,612	9.3	1,260	8.1	4,738	20.9					8,610	11.1
Fire insurance on contents of building	33	0.1	29	0.2	59	0.3	11	0.1	46	1.5	178	0.4
Depreciation on buildings	6,292	22.3	6,381	41.2	8,136	35.9	2,88-	35.3			23,696	30.5
Taxes on land and buildings	2,874	10.2	3,582	23.1	4,859	21.4	1,320	16.1			12,635	16.3
Fire insurance on buildings	47	0.2	43	0.3	55	0.2	21	0.3			166	0.2
Fire and other protection service	433	1.5	621	4.0	96	0.4	12	0.1			1,162	1.5
Stamp and other excise taxes	165	0.6	135	0.9	156	0.-	93	1.1	48	1.5	597	0.8
Sales taxes	11,300	40.1					1,459	1-.8	921	29.6	13,680	17.6
Franchise and income taxes	609	2.2	54-	3.5	1,03-	4.6	1,466	17.9	1,439	46.2	5,098	6.6
City sales tax					13-	0.6	33	0.4			170	0.2
Income tax.							231	2.8	184	5.9	415	0.5
To be reversed.			1						31	1.0	32	
Total noncontrollable costs	$ 28,166	100.0	$15,496	100.0	$ 22,666	100.0	$ 8,180	99.9	$ 3,116	100.0	$ --,624	100.1
Total rent credits	$ 732	2.6	$ 2,498	16.1	$ 4,38-	19.3	$ 3,110	38.0			$ 10,727	13.8
Net noncontrollable costs	$ 27,434		$12,998		$ 18,2-9		$ 5,070		$ 3,116		$ 66,897	
Total controllable costs	98,422		40,3-8		96,2-2		24,682		27,694		287,448	
Total warehouse and office costs * (exclusive of salesmen's costs)	$125,856		$53,3-6		$114,551		$29,-52		$30,810		$354,345	

* The costs will not agree exactly with those shown in Exhibits 4 and 8 due to the impossibility of applying certain credits to individual items.

Exhibit 8. Trager Company. Warehouse and Office Costs *

	1940	1939	1938	1937	1936	1935	1934	1933	1933–1940 Average
Chicago district									
Total controllable expenses	$ 30,783	$ 47,967	$ 33,020	$ 58,320	$ 58,843	$ 47,547	$ 41,580	$33,582	$ 26,443
Total salaries	93,867	56,968	47,200	63,652	52,073	47,164	45,133	30,103	51,805
Net controllable costs	$124,650	$104,935	$ 81,120	$121,972	$110,916	$ 94,711	$ 86,714	$72,685	$ 98,348
Net noncontrollable costs	24,360	30 543	26,350	36,035	34,638	25 403	23,907	17,374	27,432
Total warehouse and office costs (exclusive of salesmen's costs)	$137 010	$135.470	$107,470	$158,807	$145.554	$120.113	$110.681	$90.059	$125.770
Philadelphia district									
Total controllable expenses	$ 16,300	$ 12,010	$ 10,820	$ 13,203	$ 13,172	$ 13,562	$ 11,130	$ 9,651	$ 12,615
Total salaries	32,150	27 110	23 725	32,308	27 735	24,689	25,315	22,326	26,660
Net controllable costs	$ 48,516	$ 40 020	$ 34 554	$ 45,601	$ 40,007	$ 38,251	$ 34,454	$31,077	$ 39,281
Net noncontrollable costs	10,864	11,218	10,070	11,306	12,024	12,887	17,444	15,017	12,838
Total warehouse and office costs (exclusive of salesmen's costs)	$ 59,380	$ 51,208	$ 45,533	$ 56 907	$ 52,031	$ 51,138	$ 51 898	$47,014	$ 52,132
Detroit district									
Total controllable expenses	$ 39,523	$ 37,926	$ 30,055	$ 38,120	$ 33,506	$ 30,878	$ 31,206	$24,170	$ 33,335
Total salaries	66,705	63,307	52,010	77,000	67,265	61,004	53,301	44,518	60 887
Net controllable costs	$106,228	$101,323	$ 83 865	$110,320	$100.861	$ 91,072	$ 84,507	$68.697	$ 94,222
Net noncontrollable costs	18,180	18 244	19,387	18,270	16,261	16,000	19 880	20,050	18,287
Total warehouse and office costs (exclusive of salesmen's costs)	$124,408	$119 567	$103 252	$134,530	$117,122	$108,032	$104,387	$88,756	$112,500
Cleveland district									
Total controllable expenses	$ 9,654	$ 8,900	$ 5,100	$ 7,687	$ 6,942	$ 6,554	$ 6,245	$ 5,785	$ 7,147
Total salaries	20,410	16,585	15,003	10,792	16,085	13,070	11,590	11,233	15,586
Net controllable costs	$ 30,073	$ 25,485	$ 20 413	$ 27,479	$ 23 025	$ 20,530	$ 17,835	$17,018	$ 22,733
Net noncontrollable costs	4,078	3,321	9,238	7,992	6,708	2,139	3,316	2,862	5,070
Total warehouse and office costs (exclusive of salesmen's costs)	$ 35,051	$ 28 806	$ 20,651	$ 35,471	$ 29,733	$ 22,672	$ 21,161	$19,880	$ 27,803
Pittsburgh district									
Total controllable expenses	$ 12,350	$ 11,302	$ 10,774	$ 12,152	$ 10,760	$ 9,766	$ 9,773	$12,727	$ 11,202
Total salaries	19,202	17,727	15,809	20,007	17,440	15,795	14,003	13,288	16,806
Net controllable costs	$ 31,651	$ 29,020	$ 26,673	$ 32,249	$ 28,209	$ 25,561	$ 24,676	$26,015	$ 28,008
Net noncontrollable costs	3,185	2,180	6,506	5,870	4,970	728	848	1,212	3,115
Total warehouse and office costs (exclusive of salesmen's costs)	$ 34,836	$ 31,218	$ 33,179	$ 38,128	$ 32,588	$ 26,289	$ 25,524	$27,227	$ 31,123

* The costs will not agree exactly with those shown in Exhibits 6 and 7 due to the impossibility of applying certain credits to individual items.

Exhibit 9. TRAGER COMPANY. Comparison of Costs of Owned and Rented Warehouses, 1933–1940 Average

	Average yearly cost of Cleveland and Philadelphia warehouses	Average yearly cost of Pittsburgh warehouse
Depreciation on buildings	$ 9,268	
Taxes on land and buildings	4,902	
Fire insurance on buildings	64	
Fire and other protection service	633	
Maintenance and repairs to buildings	1,550	$ 5
Heat for buildings	2,468	
Rent		5,308
Total	$18,885	$5,313
Income from rent *	5,608	
Net expenses	$13,277	$5,313

	Average yearly sales	Average yearly net expenses	Cost per $100 sales
Cleveland and Philadelphia warehouses	$762,142	$13,277	$1.742
Pittsburgh warehouse	403,500	5,313	1.317

* Income from subsidiary.

inclusive. The cost per $100 sales was $1.742 for the Cleveland and Philadelphia warehouses, and $1.317 for the Pittsburgh warehouse.

In three cities, Cleveland, Philadelphia, and Pittsburgh, the company owned and operated the trucks used for local delivery. There was one truck at each location, which delivered for the Trager subsidiary organization as well. In Chicago and Detroit, trucking service was provided by local cartage contractors at their established rates. Exhibit 10 shows cost of trucking in the various cities in 1940 after credits received by the company's subsidiary had been taken into account. The figures indicated that it was cheaper to own and operate delivery trucks than to buy this service from cartage contractors. The average cost for local delivery in Cleveland, Pittsburgh, and Philadelphia was $3.82 per ton of goods delivered as compared with $4.49 per ton in Chicago and Detroit. The figures were further substantiated by a comparison of delivery costs in Detroit in 1937, when the company-owned equipment was used, and 1940, when an outside agency was employed. In 1937, the cost was $3.55 per ton, and in 1940, it was $4.97 per ton.

One explanation for this difference was the fact that the 1937 rate was established on the basis of a nonunion wage scale, which was lower than the 1940 union rate. To handle the trucking in Chicago and Detroit, a fleet of trucks was required. While a single truck could be operated in those cities without employment of a union driver, it was difficult to avoid labor unions if several trucks were operated as a fleet. This was the chief consideration which had prompted the company to make the change from company-owned trucks to the use of an outside agency.

Exhibit 10. TRAGER COMPANY. Comparison of Trucking Costs, 1940

City	Tonnage	Cost	Cost per ton	Method
Philadelphia	689.9	$ 2,096.75	$3.04	Trager truck
Cleveland	271.7	1,115.52	4.11	Trager truck
Pittsburgh	636.6	2,891.16	4.54	Trager truck
Total ...	1,598.2	$ 6,103.43	$3.82	
Chicago	1,244.8	$ 4,606.72	$3.70	Cartage contractor
Detroit	1,989.8	9,903.96	4.98	Cartage contractor
Total ..	3,234.6	$14,510.68	$4.49	

As Exhibit 11 shows, 26.2% of all sales was made to distributors in the country at large. The rate varied between warehouse and nonwarehouse districts, and between individual territories within the districts. In general, the percentage of sales to distributors increased as they were located farther from Schenectady and from company warehouses, or as they served territories which were less industrialized. The distributors in the nonwarehouse districts contributed 39.2% of the total sales in those districts. This higher rate appeared to indicate a need for the services they supplied in those territories not having a company warehouse service available, and which had a thinner concentration of salesmen per unit of sales volume. The distributors provided a stock service and customer contacts which were needed and would not otherwise be available.

The percentage of sales to distributors in the warehouse districts of 20.2% of the total was substantially lower than that prevailing in other territories. This was particularly apparent in the Detroit, Cleveland, and Pittsburgh areas, where about 10% to 12% of the sales was to distributors. The situation in Philadelphia and Chicago was quite different. In Chicago sales to distributors were 20.9% or nearly twice the percentage of distributor sales in some of the other warehouse territories. The chief reason for this was the size of the Chicago district, requiring additional distributor service in outlying sections. Sales to distributors in the sections nearest Chicago were

Exhibit 11. TRAGER COMPANY. Sales to Distributors

	Average yearly district sales	Average yearly sales to distributors	% of total	No. of distributors
Warehouse districts:				
Cleveland	$ 658,157	$ 82,904	12.6	9
Pittsburgh	745,675	92,239	12.4	9
Philadelphia	1,121,346	533,007	47.5	5
Detroit	2,037,069	193,815	9.5	13
Chicago	2,960,357	617,992	20.9	51
Total..	$ 7,522,604	$1,519,957	20 2	87
Nonwarehouse districts: Total. .	$ 3,440,850	$1,349,396	39.2	103
Grand total ..	$10,963,454	$2,869,353	26.2	190

materially reduced, and approached the conditions at Detroit, Cleveland and Pittsburgh. In the territories which included the city of Chicago and surrounding towns, sales to distributors were 11.1% of total sales.

In Philadelphia, the percentage of sales to distributors was 47.5% or several times the percentage of sales to distributors in other warehouse territories, and higher than the percentage of sales to distributors in nonwarehouse territories as a whole. Moreover, a large percentage of sales in Philadelphia was made to the Sylvania Tool Company, the distributor for customers in that city. Of the average sales from 1937 to 1940 of $369,958 in Philadelphia, $189,368 or 51.2% was to the Sylvania Tool Company. This company, which was dominated by the man who owned and managed it, also sold to other cities in Pennsylvania through its branches.

Depending upon conditions in the territory, Trager salesmen spent a varying amount of time with distributors and distributors' accounts. Exhibit 12 shows the division of time in both warehouse and nonwarehouse districts, as well as the percentage of distributors' business in the territory. These figures showed that the 26.2% of the total business which the distributor got consumed 46.6% of the Trager salesmen's time, and that salesmen in warehouse districts spent 41.7% of their time for 20.2% of the business. The figures indicated that the smaller accounts which characterized distributor business required more attention in relation to volume and that Trager was providing distributors substantial help in securing business.

The major cost of the distributors' service was represented by the difference in money returns to Trager when goods were sold by a distributor instead of direct. This factor varied with the product and type of customers, but using a representative group of distributors, it was calculated from distributors' invoices, using customers' discounts, that their gross profit was

Exhibit 12. TRAGER COMPANY

	No. of salesmen	% of time on distributor accounts	% of distributor business in territory
Warehouse districts:			
Cleveland	3	28.0	12.6
Pittsburgh	3	45.0	12.4
Philadelphia	7	60.0	47.5
Detroit	7	15.4	9.5
Chicago	14	48.0	20.9
Average		41.7	20.2
Nonwarehouse districts:			
1	2	25.0	18.6
2	2	35.0	25.0
3	1	75.0	67.7
4	2	42.5	29.9
5	1	67.0	86.6
6	1	90.0	85.2
23	1	95.0	62.0
25	3	80 0	68.6
26	1	40.0	37.0
Average		58.0	39.2
Average for all territories		46.6	26.2

30% on their purchase price, or 23.2% on their selling price for the great majority of the company's products. The total cost of selling through distributors to Trager was the profit to the distributor plus the cost of selling effort expended by Trager salesmen on behalf of distributors' sales. The total cost of selling through distributors was estimated at 38%, compared with about 11% for direct sales. The distributor did, however, reach many relatively small accounts which the company could not hope to reach directly at the 11% cost rate.

The items entering into the total cost of field distribution were (1) loss of income on goods sold to distributors, about 30%; (2) warehouse expense; (3) salesmen's salaries and expenses; (4) transportation charges from Schenectady to destinations.

Total field expense of doing business in warehouse territories amounted to 16.7% of sales as indicated in Exhibit 13. The loss of income on goods sold through distributors was a substantial part of the cost of field distribution for any of the warehouse territories. It ranged from 20.9% in Detroit to 57.6% at Philadelphia. A tabulation of average sales and warehouse operating results for a number of years was presented for purposes of comparison in Exhibit 14.

Do the data provided in the study indicate the need for changes in inventory and warehousing policy? If so, what changes should be made?

Exhibit 13. TRAGER COMPANY. Selling Expenses in the Warehouse Territories Based on Averaged Results for 1933–1940, Inclusive

	Chicago	Philadelphia	Detroit	Cleveland	Pittsburgh	Total	Total except Philadelphia
Total sales	$2,960,357	$1 121,346	$2.037,069	$658,157	$745.675	$7.522.604	$6,401,258
Total sales to distributors	$ 617,992	$ 533.007	$ 193,815	$ 82,904	$ 92.239	$1.519.957	$ 986,950
% of total sales	20.9	47.5	9.5	12.6	12.4	20.2	15.6
Expense items:							
Loss of income on goods sold through distributors *	$ 173,484	$ 156,525	$ 57,273	$ 24.353	$ 27,391	$ 439,026	$ 282.501
% total sales	5.9	14.0	2.8	3.7	3.7	5.9	4 4
Warehouse expense	$ 125,770	$ 52,132	$ 112,509	$ 27,803	$ 31,123	$ 349.337	$ 297.205
% total sales	4.2	4.6	5.5	4.2	4 2	4.7	4.6
Salesmen's salaries and expenses	$ 130,337	$ 45,306	$ 79.716	$ 39,388	$ 42,185	$ 336.932	$ 291,626
% total sales	4.4	4.0	3 9	6.0	5.6	4.5	4.6
Transportation expenses †	$ 56.242	$ 17.934	$ 24.888	$ 7.893	$ 20.130	$ 127,087	$ 109,153
% total sales	1.9	1 6	1.2	1 2	1.7	1.6	1.7
Total expenses	$ 485.833	$ 271.897	$ 274,386	$ 99.437	$120.829	$1.252.382	$ 980,485
% total sales	16.4	24 2	13.4	15.1	15.2	16.7	15.3
Loss of income on goods sold through distributors as % total expenses	35.7	57.6	20.9	24 5	22.7	35.0	28.8

* Loss of income figured at slightly less than 30% because of lower profit on small part of line.

† Transportation costs for goods shipped from Schenectady are not available by warehouse territories for this period. A study of the situation on the base of 1940 shipments indicated that they average 1.6% of the sales dollar for all warehouses and the following percentages individually: Chicago, 1.9%; Cleveland, 1.6%; Detroit, 1.2%; Philadelphia, 1.2%; Pittsburgh, 1.7%.

Exhibit 14. TRAGER COMPANY. Tabulation of Sales and Warehouse Operating Results in Warehouse Districts. Based on Averages for 1933–1940, Inclusive

District	Average yearly district sales	Average yearly warehouse sales	Warehouse sales, % of total district sales	Average yearly warehouse and office costs	Average yearly warehouse and office costs per $100 net warehouse sales	Average yearly value of inventories	Average inventory yearly turnover	No. of distributors	Average yearly distributor sales	Distributors, % of total district sales	% of salesmen's time on distributor B	% of sales dollars consumed by sales expense	Loss of income on distributor sales as % of total sales expense
Cleveland	$ 658,157	$ 208,040	45 3	$ 27,803	$ 0 33	$ 83,269	3 6 to 1	0	$ 82,004	12 6	28 0	15 1	24 5
Pittsburgh	745,675	403,500	54 1	31,123	7 71	03,080	4 3 to 1	0	02,230	12 4	45 0	15 2	22 7
Philadelphia	1,121,346	463 093	41 4	52,132	11 23	117,670	3 0 to 1	5	533,007	47 5	60 0	24 2	57 6
Detroit	2,037,060	1,586,722	77 0	112,509	7.09	513 825	3 1 to 1	13	103,815	0 5	15.4	13 4	20 0
Chicago	2,000,357	1,427,969	48 2	125,770	8 81	445 887	3 2 to 1	51	617,002	20 0	48 0	16 4	35 7
Total	$7,522,604	$4,180,333	55 6	$340,337	$ 8 36	$1,253,740	3 3 to 1	87	$1 510,057	20 2	41.7	16.7	35 0

CASES IN BRIEF

1. The Atkinson Company, a large manufacturer of canvas and rubber footwear, maintained 15 branch offices out of which traveled 170 salesmen. The company had experienced difficulty at the end of selling seasons because of excessive stocks remaining in the branch offices. Upon investigation it was found that branch managers had not been watching local inventories carefully and that, instead of maintaining stocks at a minimum, they were ordering in quantities larger than necessary in order to avoid possible shortages of particular items. This failure of branch managers to attend to details of stock control had caused considerable inventory loss from merchandise which had become so obsolete or old that it could be sold only at reduced prices, if at all. Since the executives believed that the inventory problem was primarily a local one and that home office inventories and production were kept directly in line with reports from branch offices, the company decided to experiment with a new type of inventory budget designed to keep local stocks at a minimum consistent with sound operation.

Three major objectives were set up for the plan: The first was to obtain a proper stock turnover and to have as little capital invested in inventory as efficiently necessary. The second was to prevent obsolescence of stocks through deterioration or absence of current style; and the third objective was to provide for sufficient stock to meet customers' service requirements. The procedure proposed was similar for both rubber and canvas footwear. Branch inventory budgets covered only the reordering period of several months. All other stock throughout the year was ordered by branch managers presumably to cover future orders alone. Branch managers were permitted to requisition sufficient stock to take care of future order requirements, but they were instructed to wait until after the budget had been prepared before building stocks for reorder purposes. Preparation of branch inventory budgets began in the home office shortly after a record of all future orders had been forwarded from branch offices. Using the total of future orders as a basis, the home office set to work to reach a tentative estimate of maximum inventory requirements by items for each branch. In making this estimate, account was taken of reorder shipments of each item from the branch during the same period to conform to anticipated business conditions.

Budgeted figures were thus established for three dates: first, an estimate of the amount of each item to be stocked at the opening of the reorder season; second, an estimate of the desired closing inventory as of the close of the season; and third, a total of the desired working stock at the opening and close of the particular season.

Was this likely to accomplish the objectives which had been set up?

2. The Hobbs Company, located in Rochester, New York, manufactured cutting tools sold through its own salesforce and 200 distributors. Most of the company's business had been obtained from the eastern section of the country. Five warehouses located in Cleveland, Chicago, Detroit, Philadelphia, and Pittsburgh were maintained to provide more effective service to the area surrounding those cities. The Pacific Coast had been responsible for only a small portion of the company's total sales; but during the war the greatly expanded industrial activity of that region had resulted in a considerable increase in Hobbs business. The general manager had asked the sales research department to make a thorough investigation of Pacific Coast possibilities and to devote special attention to the desirability of having one or more warehouses in that area.

The Postwar Planning Committee of the Hobbs Company had made general estimates of the company's business after the war, which, together with the data ob-

tained in the Pacific Coast survey, provided the sales research department with a basis for estimating postwar sales on the West Coast in Districts A, B, and C. Total sales for the three districts were estimated at $727,950 as compared with sales in 1940 of $490,130. These sales were broken down as follows:

District A	$319,700
District B	253,460
District C	154,790

Sales in 1940 for these three districts had been:

District A	$216,200
District B	170,545
District C	103,385

Even if one warehouse could successfully serve all three districts, it would be required to operate on less volume than was available in any other warehouse district. The sales handled in other warehouses ranged from about $800,000 to over $3,000,000 in the five-year period preceding the war.

At the time of this survey, reasonably adequate stocks were carried in the Pacific areas; but it was recognized that, if warehouses were established in Los Angeles and San Francisco, a large percentage of sales would be made direct with a correspondingly smaller percentage made through distributors. Present sales expense was represented by the cost of Hobbs salesmen, plus the "loss of income" to the company on the volume sold to distributors because of the difference in discounts involved. In District A, with possible postwar sales of $319,700, of which 89.6% was made through distributors, the loss of income on sales to distributors was estimated at $81,610. The company had one salesman in the district but it would need another in order to obtain satisfactory coverage. The salary and expenses of the two salesmen would be $14,200, and the total expenses, if selling were continued on the same basis as in the past, would be $95,810 or 30% of net sales.

With a Hobbs warehouse in the territory, the research department estimated that direct selling should be increased to include 60% of the business. On this basis, direct sales would amount to $191,820 and sales to distributors $127,880. The loss of income on sales to distributors would be $36,445. In order to provide adequate coverage of the area, four Hobbs salesmen would be needed at a cost for salary and expenses of $30,000. Warehouse expenses would amount to $37,145, so that total selling expenses would be $103,590 or 32.4% of total sales.

In District B, total postwar sales were estimated at $253,460 with distributors' share, under the system of operation being used, amounting to 54%. The loss of income on these sales was estimated at $39,007, and the cost of salary and expenses for the salesmen in that area was $6,000. The total cost of selling was, therefore, $45,007 or 17.8% of net sales. With a warehouse in the territory, direct selling should produce 70% of the total business which would mean direct sales of $177,422 and sales to distributors of $76,038. The loss of income on sales to distributors in this instance would be $21,671. A total of three salesmen would be required to provide adequate solicitation and service to the users and distributors at a cost of $21,600. Warehouse operating expenses were estimated at $28,405, so that the total cost of selling under the warehouse method would be $71,676 or 28.3% of total sales.

Should a warehouse be established on the Pacific Coast? At what location?

3. In a large wholesale hardware company, the inventory control system consisted of an individual record for each product. The monthly reports of the stock counters were entered on this record. Purchase orders were entered on the card when made, and the entries were erased when the order was received. Merchandise was purchased by the merchandise department when it seemed to the manager that the stocks of any of the items were not sufficient or when the stock counters reported a shortage. A new plan for inventory control was proposed. Monthly sales for the previous 10 years

were to be studied for each item handled by the company. The source of supply, the buying terms, and the time necessary to get an order delivered after it had been placed were to be considered. With these factors in mind, the merchandise manager would set a minimum stock level at a point where the stock on hand would be great enough to supply the demand until a shipment of the item could be ordered and delivered. Whenever the stock reached the minimum, purchases were to be made to restore it to the maximum which would be set so that the company would take advantage of any quantity purchasing savings that would not prevent it from attaining a turnover of at least eight times a year. For seasonal items, a varying minimum was to be used. The first one was to be set on the basis of past records at a point that would call the item to the attention of the merchandise department about the middle of its selling season. At this time, a study of sales and of conditions would be made to determine whether or not more of the item should be purchased, and the maximum and minimum both would be lowered in accordance with the results of this study. When the second minimum was reached, another study would be made and another maximum and minimum set.

The second part of the proposal was a new method of checking the inventory. In the proposed change, the inventory count would be taken by the individual storekeepers as follows: Each day the merchandise department was to send a list of about 200 items to each storekeeper. If the stocks of these items were between the minimum and the maximum, the storekeeper was to check the item on the list. If the stocks of any items were below the minimum or above the maximum, the storekeeper was to write down the inventory figure on the list. The merchandise department would arrange these lists so that it obtained a check on fast-moving and seasonal items each week, and a less frequent check on slower moving items. In addition to this method of controlling the stocks on hand, a bin tag was to be placed on each bin giving the maximum and minimum stock which would enable the storekeeper to catch any shortages caused by unusually large orders which might occur between stock counts and to report such shortages to the merchandise department. From time to time, the merchandise department would have the storekeeper count stock on certain items so that the sales of the item could be determined.

Should the proposal for inventory control be adopted?

4. The United States Shirt Corporation, makers of men's shirts, was confronted with the problem of determining inventory requirements of both raw materials and finished goods. Since retail and wholesale buyers tended to purchase later in the season, the problem of determining piece goods commitments in order to make shirts ordered by large buyers had been aggravated, but the principal problem which the company faced concerned finished goods. Ordinarily piece goods for making men's shirts arrived early in the season before orders had been received for the various styles yet goods should be processed in order to keep plants operating. Two problems arose: first, to determine the scale of sizes to be cut; but, secondly, even more difficult, to determine the lots to be produced particularly in the case of the high style items. The company expected that normally only 40% to 50% of the offered items would meet with public favor.

Discuss ways and means of meeting such problems.

What inventory measures could be taken to minimize risks and financing costs without disproportionate adverse effects on sales volume?

5. During the war period, the proportion of orders for shirts placed in advance by the customers of the United States Shirt Company had increased to consume the entire output of the company. The same situation prevailed for 2 or 3 years after the close of the war. However, in 1947, the hesitation of retail and wholesale buyers tended to delay the placing of orders, and in 1948 and 1949, there was a

complete and almost violent return to prewar seasonal buying and to prewar reluctance to buy largely in advance in view of expected decline in prices. Since the company knew that retail sales to ultimate consumers had, on the whole, declined less than sales by wholesalers and by manufacturers, the company was faced with two problems: (1) reorienting its policies as to the carrying of stocks of white and fancy pattern shirts at plants of the company and (2) re-examining its prewar policy of carrying no stocks outside the central stock. Certain competing companies had undertaken to carry stocks of staple patterns in branch offices and certain executives of the United States Shirt Company had urged the desirability of establishing stocks, at least in the Chicago and Los Angeles branches of the company.

What facts are needed in order to make this decision?

6. The Gulich Company manufactured an extensive line of valves and fittings for gas, oil, and water lines and tools for domestic and industrial use. Although the company made over 23,000 items divided among 14 classes, over 80% of total sales was concentrated on 20% of the items. The larger portion of the company's sales was made to jobbers and the remainder directly to railroads, large industrial concerns, petroleum companies, and other users. The general office exercised control only over the total value of inventory at the branch or warehouse. Twice a year, general office executives established an inventory goal for each warehouse and branch in total value which took into account the volume of business handled and the distance from the various plants. Monthly reports sent to the general office showed the total value of inventory on hand but the quantities of the individual items were reported only once a year after physical inventory was taken. This control was not very effective because it was possible to reach the inventory goal by carrying smaller quantities of fast-moving items while slow-moving items may have been stocked too heavily. Study showed that stocks of individual items were not satisfactorily coordinated with the sales of those items with the result that branches were often unable to fill orders promptly and lost business.

What steps might be taken to meet the situation?

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10. *Control of Sales Operations*

While the management of any enterprise involves careful planning and satisfactory execution of such plans, it soon becomes clear that because sales management involves more intangibles of human behavior than any other phase of business management, its planning and control of operations will involve special problems and special difficulties. Every sales manager knows that one cannot predict in detail how external conditions will change, nor can he determine in detail how members of the organization, his customers, or his prospects will act. It is necessary, therefore, to provide in the planning for greater or smaller changes to adjust to these changing conditions. To determine whether or not planning has been good, to ascertain the extent to which plans have been made and are being carried out, to know what has been done and what has been happening so that errors may not be repeated in the future planning, and so that proper action may be taken, these are the functions of the control devices and systems which have been developed for use in sales and other departments of business enterprise. Careful planning alone is not sufficient to secure results. Unless a plan is carefully executed, the results are likely to be unsatisfactory. Without control, an organization tends to become lax in carrying out plans although control implies much more than merely checking up on individuals or group operations.

Sales control, therefore, should not be regarded merely as a checking process for the purpose of adjusting blame or of awarding credit to particular persons, or for the purpose of finding alibis for unsatisfactory performance. It should be forward-looking. A control system collects facts as to past performance in order to have them serve as a guide for future decision on the assumption that past results in relation to the quantity, types, and quality of selling effort are indicative of future relationships. Obviously, the validity of that assumption varies. Some consumer behavior patterns change slowly; others change rapidly. The underlying behavior pattern in the fashion industries, for instance, involves frequent change which requires a type of flexibility of organization and operation not at all required, for instance, in the staple food fields. For some industries, the pace of change and the rate of adjustment may be much slower than in others, and sales control requirements, therefore, vary accordingly.

A. PURPOSE AND SCOPE OF SALES CONTROL: BUDGETARY CONTROL IN RELATION TO SALES

Any system of sales control to be satisfactory must furnish necessary information to judge a situation and make forward-looking decisions. It should furnish such information as can be procured when needed, at a cost which is not disproportionate to the importance of the decisions to be made. In other words, a good control system must furnish adequate and timely information, be flexible to meet changing conditions, and be economical. That generally means compromise, because economy both in terms of cost of collection, compilation, and presentation, and in terms of executive time required to use such information, may conflict with ideas of adequacy; or, on the other hand, ideas of adequacy may conflict with timeliness, and the full information is of little use or value if the time for pertinent decision is past.

If one attempts to set up or appraise a sales control system, there are several phases which he will have to consider. First, he will have to provide methods for collecting the necessary information as to past performance based upon careful determination of what information is required. Second, it will be necessary for him to develop and set up standards as a basis for comparison. As will be pointed out later, those standards may be derived from past performance or from estimates of the market from other sources. The third step is to compare results with the standards whether those standards are formal as in budgets or informal; and the last step is to draw such conclusions as may be warranted from the comparisons as the basis for future action. Obviously, the taking of that action is the administrative function of the executive.

All sales control is justified only in so far as it contributes to the improvement of sales volume, margins, and expense in their relations to each other. Net profit is the objective. While one may set up control as to net profit directly, customarily the information as to net profit comes only after it is too late to take any remedial action. The net profit lost in a previous year is irretrievably gone. The objective of control is, therefore, to furnish information in sufficient detail about the factors which contribute to profit or loss in order to eliminate as far as possible adverse factors. One finds, consequently, that a logical approach to the control of sales operations may well be based upon the control of sales volume, of margins, and of operating expenses.

Budgetary control, usually considered with reference to the business as a whole, is closely related to sales. In the process of budgeting, plans are made for volume of sales of various classes of products and the expenses which are to be incurred in making those sales. Estimates are likewise made by some firms as to the margins which will be secured, so that a complete budget

includes sales volume, margins, expense, and profit from sales. An estimate of future sales is the starting point for the development of budgetary control plans. Without an estimate of sales, the production department cannot gauge its requirements, nor can financial needs be forecast. Upon the accuracy of the sales budget and the other budgets relating to sales department operations depends the value of the whole budget control system.

The control of sales operations, therefore, includes the collection of information which bears upon merchandising decisions, that is, the acceptance and sale of particular products or lines; it furnishes information as to the actual working of distribution channels; it helps the sales manager to determine what selling programs have accomplished; it furnishes information and bases for judgment as to the accomplishment of the members of the sales organization.

The first problem which confronts the sales manager in developing accurate control of his sales operations is that concerning the amounts and types of information which will be needed in order that he may be able to direct the sales organization properly. He must have enough data to take action wisely, but he will soon find that it may be as disastrous to have too much information as to have too little. If he has too little information, the field within which he has to guess is much broadened, and the danger of error much greater; if he has too much, he may find that its value is more than offset by the costs of figuring it. As a consequence, wisdom in setting up control systems requires experience in anticipating needs for information for current purposes plus that needed occasionally to detect the failure or strength of particular elements of sales operations. Some information must be secured regularly in order that the progress toward the accomplishment of plans can be determined; some may be required only occasionally. Economy dictates the utmost care in preventing loss of energy, and many large firms collect information daily or weekly which is used only at infrequent intervals.

The first and most common source of control data is the accounting system; the modern developments in accounting have been due largely to the desire to secure more adequate control over business operations. It usually happens that the accounting books give only general data, which for the sales manager's purposes must be subjected to further refinement. But such data as those relating to sales by customers and by territories may be taken from the accounts and are available to every concern possessing an adequate accounting system.

The second chief means of control consists of statistical facts, to some extent drawn from accounting records, to some extent compiled independently. The recent development of statistical methods in comparing the records of the individual business with the general state of business and with conditions in the particular industry, the development of methods of budget-

ary control which are standing the test of actual operation in important business concerns, and the development of means whereby data may be collected without excessive cost and with a minimum of effort are all combining to give to statistical control a new status and new importance. The interpretation of accounting and statistical data frequently requires information which must be obtained from other sources, such as salesmen and special investigators. These sources of information are the principal ones for large enterprises.

For the small and simple enterprise, personal inspection may furnish adequate control. There is, however, considerable danger in relying upon memory to furnish the necessary continuous control and comparison which careful management requires.

As businesses increase in size, the planned collection and processing of the facts necessary for making business decisions becomes even more essential as well as more expensive and time-consuming. Continuous need for timeliness, adequacy, and economy in serving those who administer sales gives support to efforts to "streamline" reporting and control systems and to the application of advanced mechanical and electronic devices. These range from simple adding machines and files to elaborate computers and other data processing apparatus. Fantastic expectations and irresponsible claims have been made for so-called electronic "brains"; but so far, no developments appear to have taken place which will remedy the faultiness or incompleteness of the data fed into these machines. They cannot be classed as more than very rapid labor-saving devices which permit certain types of work to be done in various fields, including recording and analyzing marketing and sales data, more economically than heretofore.

93. J. L. GAINEY CO. (A)

Introduction. The J. L. Gainey Co. manufactured and sold supplies and equipment to bakeries, soda fountains, ice cream and confectionery manufacturers, restaurants and institutions in 13 northeastern and eastern states. The majority of the 8,850 items in the product line were purchased for resale, but the company manufactured ovens and other bakery equipment and more than 100 varieties and flavors of food products.

The firm was founded in 1877 when Mr. J. L. Gainey opened in Boston as a wholesale grocer. A few years later he withdrew from the grocery field to serve the bakery trade exclusively. In the early 1880's his concern made the first commercial pie filling used in this country. Other fillings, jams, and jellies were added in subsequent years.

As the company grew, it purchased several smaller firms including a bakery supply concern, a confectionery supply house, an institutional wholesale grocery company, and a bakery equipment firm. The Perry Company, a manufacturer of soda fountain fruits and syrups, was added in 1947. Its

corporate identity was retained and it was operated as a separate division with its own salesforce.

All items sold were classified as either "Gainey" or "Perry" to facilitate the keeping of separate corporate records.[1] Each salesforce sold items in the other's line, however, and received a special discount on the other's products. The Gainey salesmen sold to large-scale users of food products such as bakers, confectioners, ice cream manufacturers, restaurants and institutions. The Perry salesmen sold to soda fountain operators and ice cream manufacturers. Gainey and Perry salesmen did not call on the same accounts.

The Gainey items were divided into three product groups as follows:

GROUP A

Products made by the company (25% of total sales)

A-1 Jams, jellies, pie fillings and bakers' specialties
A-2 Soda fountain and ice cream supplies
A-3 Extracts
A-4 Powders and icing bases

GROUP B

Products purchased by the company (70% of total sales)

B-5 Pie fruits, dried and glacéed fruits and nuts
B-5S Staple wholesale groceries (shortenings, cocoa, dessert preparations, tea, etc.)
B-6 Specialties (powdered milk, molasses, malt, spices)
B-7 Canned goods (fruits and vegetables)
B-8 Frozen goods

GROUP C

All products purchased by the company except C-9 (5% of total sales)

C-9 Ovens and other equipment
C-10 All small equipment and utensils
C-11 Motor-driven machinery
C-12 Bakery furniture (showcases, tables, etc.)

The Perry line was divided into four product groups:

1. Manufactured goods
2. Resale foods
3. Resale equipment
4. Coca-Cola

The J. L. Gainey Co. had done business with a substantial number of its 12,000 customers for many years and had attained an annual sales volume

[1] In this descriptive material, "Perry" will designate the Perry Company Division, "Gainey" will refer to the remainder of the organization, and "the company" will mean the combined operations.

of about $12,000,000. The 54 salesmen had regular routes and called on city accounts once a week, others either biweekly or monthly. They were paid drawing accounts, which actually were minimum salaries, plus commissions based on gross profits from their sales. Thirty-two Gainey salesmen, nine Perry salesmen and three specialty salesmen on equipment operated out of Boston while 10 Perry salesmen were in the New York office. All except the specialty salesmen sold the company's entire line.

In addition to the salesmen, a service staff of four specialists helped customers with their problems. A trained dietitian worked with restaurants and institutions. The other three were experts in problems encountered by ice cream manufacturers, soda fountain operators or bakers.

Three generations of the Gainey family furnished company presidents. Upon the death of the founder in 1920, his son, Mr. W. T. Gainey, succeeded to the presidency. He became well known also for his active participation in church, civic, philanthropic and business groups. In July, 1951, he became chairman of the board of directors of J. L. Gainey Co. and his son, Mr. W. T. Gainey, Jr., was elected president. The latter had been a salesman, sales manager, vice president in charges of sales and advertising, and a director since joining the company in 1935. He was in charge of the New York office for the three years immediately preceding his election to the presidency.

The president had known all employees personally, kept them informed on company matters, and attempted to foster an informal, friendly working environment. Quarterly meetings of all employees had been held for 30 years. At a typical recent meeting, Mr. W. T. Gainey spoke about general economic and political conditions, the business outlook and company problems and plans. He also acknowledged the completion of 10 years of service by 1 employee and 15 years of service by another, and awarded 25-year pins to 2 others. He announced wedding presents of 3-piece silver sets for 5 employees and gifts of $5 as bank account openers for each of 6 new babies. Special inscribed plates were presented to 3 members of the organization who were retiring after serving the company for 52, 31 and 21 years, respectively.

Two years after he became president, Mr. J. L. Gainey inaugurated a plan under which all the company's stock was owned by a group of its employees. The plan was based upon the belief that the greatest incentive an employee can have is the thought that some time he may become a part owner of the business and share in its management and profits. Only persons in positions of responsibility who had contributed substantially to the company's growth were elected to the stock owning group. When the plan was started in 1922 14 were chosen and subsequent additions had increased the number to 35.

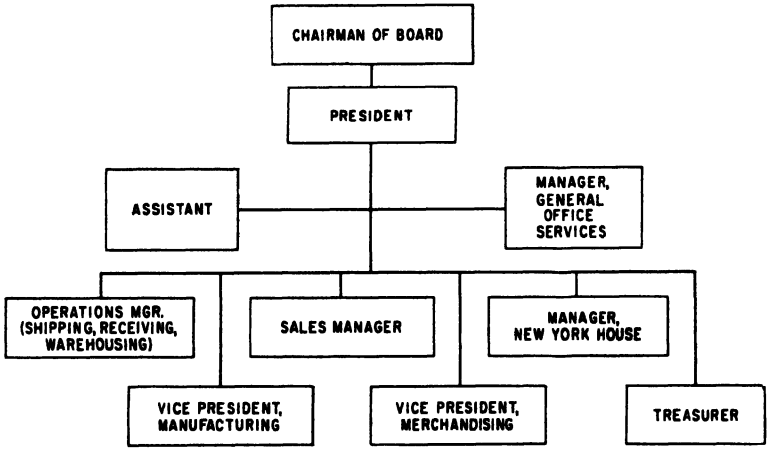
Many of the personnel had been with the company for long periods of

years. The names of 209 of the 285 employees appeared on the "service honor roll" for more than 5 years of service. Of this number 58 had been with the firm more than 25 years; 27 for 20 to 25 years; 24 for 15 to 20 years; 39 for 10 to 15 years; and 61 for 5 to 10 years.

The nature of the company's operations was reflected in the number of persons in the various types of jobs: 62 worked in manufacturing, 51 were in warehousing and shipping, 54 were salesmen and 11 drove delivery trucks. The remaining 107 persons had administrative and clerical duties and accounted for 40% to 45% of the payroll. Wages and salaries represented about 50% of the company's total expense.

In September, 1951, Mr. W. T. Gainey, Jr., undertook what he had found to be an urgently needed re-examination of the firm's organizational structure. He had observed that lines of responsibility needed clarification and that minor duties had accumulated to impose an increasingly heavy burden on key executives. Job descriptions were prepared, several organizational changes were made, and a new organization chart was issued in January, 1952 (Exhibit 1).

Exhibit 1. J. L. GAINEY Co. Organization Chart



Eight executives reported to the president. A brief description of their duties follows:

Operations manager—supervised shipping, receiving and warehousing.

Vice president in charge of manufacturing—directed the manufacturing of the food products which constituted Group A. Also served as head of all Perry operations.

Sales manager—directed the Gainey salesforce and the advertising department.

Vice president in charge of merchandising—responsible for decisions on what items and sizes to carry, packaging, pricing, and inventory policy. He directed

the buying of products purchased for resale. Reporting to him on merchandising matters were the vice president in charge of manufacturing who was responsible for the Group A products; three department heads who handled Group B items; and the vice president in charge of the equipment division of Group C products. The latter officer also supervised the activities of the equipment specialty salesmen and the company's oven factory.

Treasurer—directed the finance department. Reporting to him were the chief accountant, credit manager, cashier, paymaster, and the head of the inventory control system.

Manager of the New York house—responsible for all New York operations.

Manager of general office services—had charge of sales records, the general, registry and invoice files, the addressograph and mail rooms, and the telephone operators.

Assistant to the president—worked on operational problems.

It was the Gainey policy that important decisions would be reached only after company matters had received full consideration by the executive committee. The members of this group, which met weekly, were the chairman of the board, president, vice president in charge of merchandising, vice president in charge of the equipment division, vice president in charge of manufacturing, treasurer, sales manager, and operations manager.

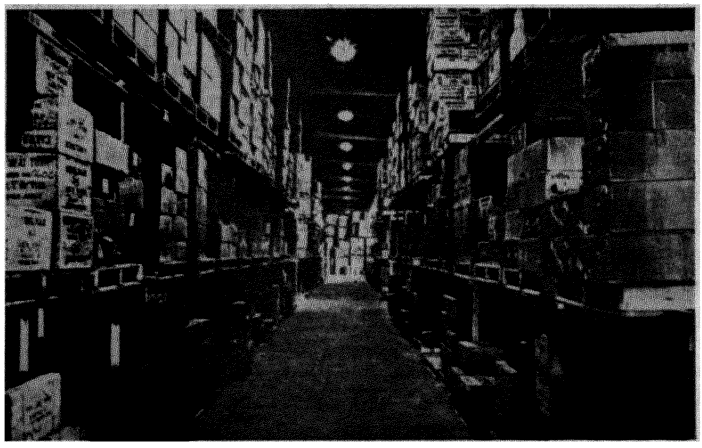
The company celebrated the arrival of its 75th anniversary year by moving into a new building in February, 1951. The structure housed the offices, manufacturing area, display rooms, cold storage facilities, cafeteria, and warehouse. It contained 133,000 square feet of floor space, three-fourths of which was on the ground floor to facilitate the handling of merchandise. The latest materials handling methods, employing pallets, high lift fork trucks, motor-driven towing devices and monorail systems, were used throughout the food plant and warehouse. A pneumatic tube installation carried orders and papers from floor to floor. The one-story warehouse section contained 65,000 square feet of unobstructed floor space. Nineteen trucking doors were located on one side of the warehouse and space for eight railroad cars was provided at the rear on the siding of the Boston and Albany railroad (Exhibit 2).

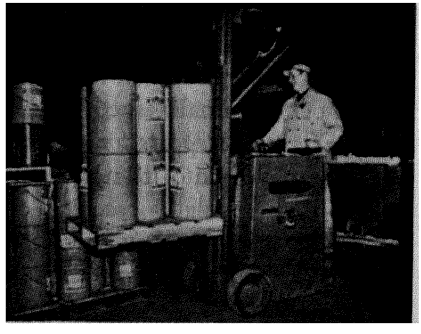
A complete stock of all items was carried in the Boston warehouse and a 5-day stock was maintained in New York.

Sales Control Reports for Principal Executives. Soon after the J. L. Gainey Co. had moved into its new building, the top executives re-examined the reports they regularly received on the firm's operations. They sought to determine whether they were getting the information necessary for the exercise of proper control over sales.

The reports had been used for a number of years and were distributed to members of the executive committee who met weekly to direct the general course of the business. Serving on the committee were the chairman

Exhibit 2. J. L. Gainey Co. The Warehouse





of the board, president, vice president in charge of merchandising, vice president in charge of the equipment division, vice president in charge of manufacturing, treasurer, sales manager, and operations manager who supervised shipping, receiving and warehousing.

The reports are described below:

DAILY REPORTS

1. Sales by departments (Exhibit 3). Reported for each department gross sales made on the day for which the report was prepared, sales to date for the month, sales to date for the same day and month last year, and total sales for the month last year. The number of sales was recorded for the same time periods.
2. Sales by salesmen (Exhibit 4). Recorded for each salesman his sales made on the day for which the report was prepared, sales to date for the month, monthly sales quota, sales to date for the same day and month last year, and total sales for the month last year.

MONTHLY REPORTS

3. Sales by departments (Exhibit 5). This report gave dollar sales for each department for the month, the same month last year, the year to date, and the year to date a year ago. The total number of sales slips was listed for the same time periods.
4. Sales by salesmen (Exhibit 6). The sales for each salesman were given for the month, the same month last year, the year to date, and the year to date last year.
5. Individual salesman's report (Exhibit 7). Total sales and sales in each department were reported for the month, same month last year, year to date this year, and year to date last year. The gross profit and gross profit percentage realized from the salesman's total sales and sales by departments were given for the same time periods. A budget percentage of gross profit was listed for each department. Each salesman received a copy of this report covering his own sales.
6. Monthly summary of operations (Exhibit 8). Operating data were presented in this report of four parts as follows:

(a) Part I gave the profit picture for the month and the year to date for both this year and last. This was done in a consolidated statement for all operations and in a similar statement which excluded the Perry Company Division. Profit information also was presented separately for Gainey operations in Boston, Gainey operations in New York, and Perry.

(b) Part II presented data for all operations combined. Included were figures on the cash position; number of sales slips and average amount per slip; factory production in pounds and average labor cost per pound; inventories by departments; expenses; salaries and wages; and sales, merchandising profit and percentages of returns and gross profit by departments. Most of the information was given for the month and the year to date for both this year and last.

(c) Part III was a separate report on the New York house. Gross sales, net profit and the percentages of returns and gross profit were given for all New York business combined and for each of the three main product groups. Inventory figures also were listed for the main product groups. Sales and per cent of gross profit were reported for all 13 product departments. The report also included expenses. Most of the data were reported for the month and the year to date for both this year and last.

(d) Part IV consisted of Perry Company profit and loss statements for the month and the year to date. Both were compared with the statements of a year ago.

In addition to the above, an annual report was prepared which listed the number of new accounts opened during the year by each salesman.

Exhibit 3. J. L. GAINEY Co. (A). Daily Report of Sales by Departments

August 7

	Sales today	Sales to date this month	Sales to date same month last year	Total sales same month last year
Gross sales	$50,242.41	$163,002.79		
Deduct PL.*	1,213.13	1,626 67		
Total	$49,029.28	$161,376.12		
Number of sales	597	1,969	1,221	9,689
Sales by departments:				
A-1	$ 7,687.43	$ 24,184.30	$15,201.52	$111,462.26
2	1,732.76	7,870.22	4,381.37	31,550.85
3	1,009.80	3,389.12	5,762.97	29,325 85
4	2,190.06	8,068.36	4,758.24	32,470.88
Total—Department A	$12,620.05	$ 43,512.00	$30,104.10	$204,809.84
B-5	$15,664.38	$ 49,541.23	$21,583.25	$221,148.69
5S	4,933.35	11,832.90	5,504.86	44,731.30
6	4,613 47	14,262.52	7,895.54	57,633.20
7	6,775.62	24,215.30	10,773.40	78,386 33
8	1,066.66	7,957.13	5,415.17	45,793.96
Total—Department B	$33,053.48	$107,809.08	$51,172.22	$447,693.48
C-9	$ 922.60	$ 1,124.82	$ 65.77	$ 7,197.54
10	965.68	5,588.86	2,053.11	34,778.90
11	413.70	1,686.10	2,357.91	26,757.24
12	1,043.75	1,297.40	183.20	2,696.35
Total—Department C	$ 3,345.73	$ 9,697.18	$ 4,659.99	$ 71,430.03
Total—all departments	$49,019.26	$161,018.26	$85,936.31	$723,933.35
Postage, freight, etc.	$ 10.02	$ 357.86	$ 146.22	
Total	$49,029.28	$161,276.12	$86,082.53	$723,933.35

* Purchase ledger items. They are deductions from accounts payable arising from shortages in receipts from suppliers and other causes.

Exhibit 4. J. L. Gainey Co. (A). Daily Report of Sales by Salesmen

August 7

Salesman	Sales today	Sales to date this month	Monthly quota	Sales to date same month last year	Total sales same month last year
Benson	$ 295.42	$ 1,709 80	$ 13,200.00	$ 1,765.20	
Bickford	234.17	2,477 95	12,300.00	2,480.45	
Bingham	1,957.56	3,636 86	16 300.00	936.33	
Blun	40.00	1,166.72	9 100 00	635.01	
Bossman	1 130 67	5,677 20	17 000.00	738.50	
Clear	956 80	5,432 56	22,400.00	3,144.86	
Cosgrove	933 54	2,226 19	13,300.00	656.53	
Dinsmore	2,761.25	6,362.12	20,000.00	2,387.81	
Elliott	2,130.87	2,815 23	24,400.00	5,481.81	
Farrell	1,667 34	5,200.58	26,400.00	1,737.06	
Field	892 69	2,616 99	14,600.00	2,240.95	
Fournier	1,448.22	3,913 84	14,000.00	1,207.90	
Garland	1,450.95	5,230.95	24,500.00	4,800.34	
Hurst	867 96	4,207.09	19,700.00	748.25	
Jordan	847 12	2,726.06	26,000.00	659 87	
Keenan	307.03	1,740 89	14,900.00	851.97	
Kelly	330 49	882 48	15,900.00	478.15	
King	574.32	1 915 95	12,300.00	1,912.25	
Laban	704 73	2,104.04	8,600 00	2,442.64	
Langton	3,560 96	13,318.60	6,500 00	4,779.96	
Letty	2,116 45	4,153.21	17,300 00	3,279.12	
MacPhail	426.27	1,523 98	14,400.00	1,458.44	
Malden	293.10	3,933 49	17,100.00	1,131.27	
Marwick	1,476 48	3,642.03	16,300 00	1,152.49	
Muller	241.85	2,586 37	10,000.00	1,109.27	
Ober	1,291.78	4,825 75	18,800.00	2,312.59	
Rice	29 25	1,915 09	14,300.00	427 45	
Roberts	1,250 39	3,228 51	11,500.00	1,204.87	
Sumner	1,068.95	3 183.59	16,100.00	1,126.65	
Weston	896 71	1,858.89	11,600.00	1,007.54	
Wilkins	1,090.22	3,273 51	13,100 00	1,462.02	
Zink	1,507.26	5,161 94	21,600.00	1,029.24	
Misc. Boston				903.38	
Store	754.80	4,369.87	24,000.00	3,163.91	
Mail order dept.	297.61	1,265 06	6,500.00	681.11	
Government	62.75	992 73	14,000.00	1,147.09	
Total forward	$35,895.96	$121,276.12	$616,500.00	$62,682.28	

Equipment Salesmen

Petty		$ 233.52	$ 22,000.00	$ 2,154.30	
Thurlow	$ 35.63	311.38	5,200.00	161.15	
Urban			3,500.00		
Misc. equipment		305.63		27.00	
Total equipment	$ 35.63	$ 850.53	$ 30,700.00	$ 2,342.45	

Exhibit 4. J. L. GAINEY Co. (A). Daily Report of Sales by Salesmen (*Continued*)

Salesman	Sales today	Sales to date this month	Monthly quota	Sales to date same month last year	Total sales same month last year
Boston Salesmen					
Total Boston .	$35,931.59	$122,113.45	$647,200.00	$65,024.73	$566,153.91
New York Salesmen					
Anderson.	$ 2,100.28	$ 3,717.68	$ 12,000.00	$ 515.50	
Berry	2,004.09	3,238 78	16,000.00	1,132 33	
Candage	426.45	2,111.32	10,000.00	1,028.94	
Coy	29.00	712.59	16,000 00	619 33	
Devlin	1,425.23	3,550 88	22,000 00	1,414 21	
Gibson	2,103.98	6,211.01	10,000.00	896 83	
MacRae .	3,023.63	13,433.28	35,000 00	12,301 83	
Mead	1,671.47	2,970 17	10,000 00	276.60	
Schmidt. .		560.42	16,000.00	774 65	
New York House	303.54	2,385 48	19,000.00	1,951 36	
Total New York	$13,087.67	$ 38 891 61	$166,000.00	$20,911 58	$157,779.44
Total—all	$49,019 26	$161,018 26	$813,200 00	$85,936.31	$723 933 35

Exhibit 5. J. L. GAINEY Co. (A). Monthly Report of Sales by Departments

February 28

	Sales for month	Sales for same month last year	Sales to date this year	Sales to date last year
Total monthly sales slips.	8,663	8.804	17,827	18,102
Department:				
A-1 . .	$102.605.83	$110.262.41	$ 213,926.38	$ 213,875.60
2	16.839.06	11,794.17	34.766.69	27,680.11
3	27.093.68	17.557 02	60,775.32	40.023.01
4	39.154.77	34.005.15	75.835.74	67.436.41
Total—Department A	$185.693.34	$173.618.75	$ 385.304 13	$ 349,015.13
B-5	$224.511.36	$217,005 47	$ 502,982.05	$ 445,097.79
6S	43,602.93	41.300.47	96,379.14	86,276.04
6	49,076.26	45,975 96	131,120.40	97,593.14
7	92,001.24	75.020.74	231,053.88	169,054.76
8	23,331.19	39,552 65	56,557.43	86,569.08
Total—Department B	$432.522.98	$418,855.29	$1,018,092.90	$ 884,590.81
C-9.	$ 7,348.08	$ 4,681.05	$ 14,937.38	$ 16,282.39
10	30,303.25	27,850.31	67,733.84	63,564.54
11	24,564.69	13,870.69	68,602.67	35,771.86
12	9.523.76	1,603.97	14,340.54	3,292.66
Total —Department C	$ 71.739.78	$ 48,006.02	$ 165,614.43	$ 118,911.45
Total—all departments	$689,956.10	$640,480.06	$1,569,011.46	$1,352,517.39
% increase over last year	7.91	. . .	16.01	

Exhibit 6. J. L. GAINEY Co. (A). Monthly Report of Sales by Salesmen

February 28

Salesman	Sales for month	Sales for same month last year	Sales to date this year	Sales to date last year
Benson	$ 16,128 75	$ 11,344.56	$ 34,587.89	$ 27,657.71
Bickford	6,024.49	7,496.04	18,389.09	15,542.49
Bingham	15,855.95	11,679.94	31,049.37	25,104.50
Blun	8,101 90	6,165 70	18,963.35	17,781.74
Bossman	18,825.66	14,492 05	52,928 23	30,434.59
Clear	19,120.55	24,518 19	45,553.06	51,179.17
Cosgrove	8,523.69	7,487.35	22,248 63	19,692.86
Dinsmore	13,821.40	14,361.09	29,840 64	27,390.24
Elliott	17,900.85	18,691.81	43,911 62	37,654.35
Farrell	19,846.72	25,748.17	49,192 70	48,675 16
Field	16,929 73	13,607 16	46,750 56	30,559.11
Fournier	13,485.50	11,241.75	31,840 48	24,933 24
Garland	12,236 52	10,626 67	28 143 30	20,769 35
Hurst	20 189.42	14,722.03	41,352 56	33,602 57
Jordan	15,566.32	14,710.86	36,082.67	35,344.01
Keenan	11,317.41	10,688.39	27,498 24	23,019.15
Kelly	6,318.04	5,354 10	16,756.42	14,146.83
King	19,454.30	10,286.17	35,506.57	20,549.24
Laban	9,220.27	7,591.07	17,944.37	15,043 40
Langton	66,807.35	52,313.22	171,128.03	110,708.90
Letty	10,890.92	12,982 21	28,713 00	28,565.19
MacPhail	14,878.83	11,326 59	31,160 12	24,144 01
Malden	27,196.97	22,415.95	46,916 32	37,512 87
Marwick	9,816.95	8,579.65	25,327.83	21,224.34
Muller	5,778.32	7,609.06	15 024 90	14,919.10
Ober	20,814 40	19,040 64	51,307.52	40,356 28
Rice	6,348.49	10,703.60	26,261.57	20,534.85
Sumner	10,489.93	10,872 49	32,063 73	24,405.45
Weston	8,086.01	7,022 17	18,632 35	15,100.43
Wilkins	9,754.09	9,665 47	23,043.74	21,356.19
Zink	12,223.86	11,227 34	25,303 79	26,970.37
Miscellaneous Boston		7,249 32		15,963.16
Store	12,226.79	21,738 30	25,398 06	37,054.07
Mail order department	4,928.69	5,411 21	10,335 27	13,643 63
Government	16,705.81	4,891 61	44,613 99	14,904.82
Total forward	$505,814 88	$462,649 32	$1,203,769 97	$980,749.30

(The report also gave for the same time periods as above equipment sales by salesmen, total equipment sales, total sales by Boston salesmen, sales for each New York salesman, total New York sales, and the total sales for the company.)

Exhibit 7. J. L. GAINEY CO. (A). Individual Salesman's Report

Salesman Benson

Your report for month of December

Total for current month				Total year to date			
This year		Last year		This year		Last year	
Sales	10,146	Sales	13,580	Sales	157,422	Sales	156,076
Profits	1,535	Profits	2,383	Profits	25,765	Profits	25,562
	15.12%		17.54%		16.36%		16.37%

Current month this year				Sales—(gross)			
Sales (gross)	Profits	Actual percentage	Budget percentage	Current month last year		Year to date	
						This year	Last year
A-1 873	212	31.56	25.00	A-1	1,540	13,910	14,812
A-2 321	90	41.60	28.00	A-2	306	8,747	7,821
A-3 285	85	30.48	30.00	A-3	1,011	5,264	5,682
A-4 137	24	17.55	25.00	A-4	153	2,459	2,595
B-5 1,388	159	13.93	12.00	B-5	1,315	20,805	13,332
B-5S 936	109	11.90	13.50	B-5S	765	12,193	9,182
B-6 579	69	18.71	12.00	B-6	489	8,919	8,047
B-7 4,786	666	13.97	15.00	B-7	7,216	68,900	81,531
B-8 212	25	14.41	12.00	B-8	220	5,123	4,917
C-9 410	90	46.62	22.00	C-9	—	666	437
C-10 195	-	0.59	30.00	C-10	548	10,337	6,969
C-11 -	—	--	24.00	C-11	17	75	368
C-12 24	6	25.30	30.00	C-12	--	24	383

Remarks:

Exhibit 8. J. L. Gainey Co. (A). Summary of Operations for February

PART I

	This year	Budget	Last year
Consolidated (Perry Co. included):[1]			
Net profit before taxes for month	$ 4,759 *		$ 859
Net profit before taxes for year to date	2,881		7,259
Net profit after taxes for month	6,030 *		382 *
Net profit after taxes for year to date	2,927 *		1,479
Consolidated (without Perry Co.):[1]			
Gross sales for month	640 480		754,894
Gross sales for year to date	1,352,517		1,489,473
% increase in sales for year	9 19 *		
% returns for month	1 18		1 47
% returns for year to date	1 04		1 31
% gross profit for month	18 29		17 68
% gross profit for year to date	18 22		18 11
% net profit before federal taxes to net sales for the year	0 20 *		
Net profit before taxes for month	6,381 *		84 *
Net profit before taxes for year to date	2,663 *		2,747
Net profit after taxes for month	7,052 *		1,026 *
Net profit after taxes for year to date	6,370 *		1,334 *
J. L. Gainey Co. (Boston):			
Net profit before taxes for month	1,734		715
Net profit before taxes for year to date	8,870		8,291
Net profit after taxes for month	1,075		443
Net profit after taxes for year to date	5,500		5,140
J. L. Gainey Co., Inc. (New York):			
Net profit before taxes for month	8,140 *		3,478 *
Net profit before taxes for year to date	12,861 *		9,389 *
Net profit after taxes for month	8,140 *		3,478 *
Net profit after taxes for year to date	12,861 *		9,389 *
The Perry Co.:			
Net profit before taxes for month	1,622		943
Net profit before taxes for year to date	5,544		4,512
Net profit after taxes for month	1,022		643
Net profit after taxes for year to date	3,444		2,812

[1] Consolidated statements include two small corporations owned by the company for which separate figures are not given in this exhibit.

* Loss or decrease.

Exhibit 8. J. L. GAINEY CO. (A). Summary of Operations for February (*Continued*)

PART II

	This year	Budget	Last year
Cash on hand, end of month	$ 102 759		$ 106,505
Accounts receivable, end of month	746.189		876,860
Accounts receivable turnover	22 5 days		23.5 days
Notes payable, end of month	459.592		400,000
Accounts payable, end of month	280.638		315,991
Goods paid for but not received	105.879		66,139
Net liquid capital, end of month	1,445.657		1,630,585
Ratio, current assets to liabilities	2 80		3 00
Dividends paid	0		0
Number of sales slips per month	8 804		9,212
Number of sales slips per year to date	18,102		18,442
Average amount per sales slip for month	72 75		81.95
Average amount per sales slip for year to date	74 72		80.77
Factory production in lbs. for month	1,027 692		976,771
Factory production in lbs. for year to date	2,091,017		2,039,225
Average cost of labor per lb for month	0 0082		0.0082
Average cost of labor per lb for year to date	0 0081		0.0081

Inventories by Departments

Departments	End of month this year	End of month last year	December 31 last year
A-1	$ 107.980	$ 118.874	$ 66,962
A 2	13,107	9,080	8,408
A 3	114,882	122,425	76,948
A 4	17,236	20,424	13,594
Total A	$ 253,205	$ 207,803	$ 165,912
B 5	430.517	355.698	379,072
B 5S	44,793	40,462	32,603
B-6	54,020	70,651	42,388
B-7	223,643	308,720	175,869
B-8	175,539	115,486	189,615
Total B	$ 928,512	$ 891,017	$ 819,547
C-9	21,488	26,754	23,910
C-10	140,472	155,560	139,047
C-11	20,805	18,174	23,791
C-12	20,819	86,499	21,332
Total C	$ 203,584	$ 286,987	$ 208,080
Containers and misc.	14,027	14,688	11,335
Total inventory	$1,399,508	$1,463,495	$1,204,874
Turnover.	4.21	5.05	6.08

Exhibit 8. J. L. GAINEY Co. (A). Summary of Operations for February (*Continued*)

	This year	Budget	Last year
Expenses for month:			
Advertising	$ 3,289		$ 2,849
Buying and selling	69,484		71,683
Receiving and shipping	12,032		12,723
Heat, light and power	2,936		3,138
Building and stock	12,226		15,531
Office	8,125		8,530
Administration	10,802		10,475
Department A manufacturing expenses	9,716		9,280
Department C-11 manufacturing expenses	378		366
Department C-9 manufacturing expenses	2,321		2,986
Department C-12 expenses			421
Sundry expenses	14,595		16,780
Total for month	$145,904		$154,762
% commercial expenses to net sales	17.89		16.06
% increase in expenses	5.72 *		
% increase over budget			
Expenses for year to date:			
Advertising	$ 6,586		$ 6,820
Buying and selling	138,372		143,047
Receiving and shipping	27,108		26,162
Heat, light and power	5,939		6,058
Building and stock	23,726		28,271
Office	17,534		18,394
Administration	21,302		23,035
Department A manufacturing expenses	19,854		18,775
Department C-11 manufacturing expenses	613		672
Department C-9 manufacturing expenses	4,469		5,818
Department C-12 expenses			705
Sundry expenses	27,882		34,032
Total for year to date	$293,385		$311,789
% commercial expenses to net sales	17.13		16.38
% increase in expenses	5.90 *		
% increase over budget			
Salaries and wages, year to date:			
Advertising	$ 1,148		$ 875
Buying and merchandising	16,589		19,019
Sales department and salesmen	30,816		33,681
New York	22,908		26,938
Receiving and shipping	20,929		20,656
Heat, light and power	2,222		2,141
Janitors, carpenters and maintenance	2,800		2,746
Office and administration	21,814		21,907
Stenographers and telephone	5,611		5,658
Department C-11 shop	487		512
Oven factory	2,831		3,886
Department A production	17,019		16,551
Total salaries and wages	$145,174		$154,570
% increase over last year	6.08 *		
% increase over budget			

* Decrease.

Exhibit 8. J. L. GAINEY Co. (A). Summary of Operations for February (*Continued*)

	This year	Budget	Last year
Miscellaneous expenses, year to date:			
Salaries and wages	$145,174		$154,570
Freight, express and trucking	38,145		39,199
Autos, travel and official	16,470		18,357
Advertising (without salaries)	5,439		5,944
Stationery and office supplies	962		2,552
Outside storage and refrigeration	6,028		6,621
General insurance	5,821		7,595
Taxes (local, state, real estate, and social security)	11,134		8,818
Light and fuel	4,501		4,203
Repairs (building and equipment)	2,560		5,191
Postage	1,715		2,137
Telephone and telegraph	2,871		2,996
Association dues and magazines	874		934
Interest paid and bad debts	6,906		9,567
Cash discounts allowed	9,883		12,017
Pension fund	5,400		5,600
Spoiled materials and samples	1,210		818
Inventory adjustments	5,000		6,800
All other expenses	23,292		17,871
Total expenses, year to date	$293,385		$311,790

Exhibit 8. J. L. GAINEY Co. (A). Summary of Operations for February (*Continued*)

	This year		Budget		Last year	
	Last month	Year to date	Last month	Year to date	Last month	Year to date
Department A-1:						
Sales	$110,262	$213,876	.....	.....	$ 98,245	$199,722
% returns	0.63	0.65	.....	.....	1.11	0.91
% gross profit	26.55	26.65	.....	.....	26.67	27.73
Merchandising profit	$ 28,956	$ 55,073	.....	.....	$ 25,069	$ 53,197
Department A-2:						
Sales	$ 11,794	$ 27,680	.....	.....	$ 12,148	$ 27,443
% returns	2.17	1.60	.....	.....	0.44	0.53
% gross profit	30.97	31.40	.....	.....	31.59	30.71
Merchandising profit	$ 3,170	$ 7,860	.....	.....	$ 3,420	$ 7,584
Department A-3:						
Sales	$ 17,557	$ 40,023	.....	.....	$ 31,752	$ 56,709
% returns	1.20	0.65	.....	.....	0.78	0.54
% gross profit	38.97	38.56	.....	.....	32.09	33.61
Merchandising profit	$ 5,848	$ 13,566	.....	.....	$ 9,288	$ 17,346
Department A-4:						
Sales	$ 34,005	$ 67,436	.....	.....	$ 37,776	$ 80,315
% returns	0.72	0.70	.....	.....	1.60	0.95
% gross profit	24.13	25.07	.....	.....	23.44	24.14
Merchandising profit	$ 7,957	$ 16,228	.....	.....	$ 8,527	$ 18,829
Total Department A:						
Sales	$173,619	$349,015	.....	.....	$179,921	$364,188
% returns	0.81	0.73	.....	.....	1.11	0.84
% gross profit	27.62	28.08	.....	.....	27.29	28.08
Merchandising profit	$ 45,934	$ 92,727	.....	.....	$ 46,304	$ 96,956

(The same information was given for the other product departments, but is not reproduced in this exhibit.)

Exhibit 8. J. L. GAINEY CO. (A). Summary of Operations for February (*Continued*)

PART III

J. L. Gainey Co., Inc., New York	This year	Last year
Gross sales for the month	$158,302	$174,485
Gross sales for year to date	319,111	328,567
% increase for the year	2.88 *	
% returns for the month	0.69	1.31
% returns for year to date	0.74	1.16
% gross profit for the month	17.10	15.69
% gross profit for year to date	16.81	16.61
Net profit before taxes for the month	8,140 *	3,478 *
Net profit before taxes for year to date	12,861 *	9,389 *
Net profit after taxes for month	8,140 *	3,478 *
Net profit after taxes for year to date	12,861 *	9,389 *

* Decrease or loss.

New York Inventory	End of month this year	End of month last year	December 31 last year
Department A	$ 26,309	$ 30,504	$ 15,392
Department B	97,445	112,413	104,245
Department C	1,025	2,774	1,888
Total	$124,779	$145,691	$121,525

Exhibit 8. J. L. Gainey Co. (A). Summary of Operations for February (*Continued*)

Gross Sales and Percentage of Gross Profit by Departments for New York House

	This year		Last year	
	Last month	Year to date	Last month	Year to date
Department A:				
Gross sales	$65,781	$122,562	$ 61,434	$118,243
% returns	0.48	0.55	1.90	1.11
% gross profit	23.10	24.21	23.36	24.42
Department B:				
Gross sales	$88,543	$189,239	$108,802	$198,363
% returns	0.74	0 78	0.47	0.92
% gross profit	11.97	11.41	10.92	11.31
Department C:				
Gross sales	$ 3,978	$ 7,310	$ 4,248	$ 11,961
% returns	3.12	2.73	14.50	5.64
% gross profit	32.06	32.45	30.49	28.00

	Last month this year		Last month last year	
	Sales	% gross profit	Sales	% gross profit
A-1	$46,633	22.89	$ 36,175	23.59
2	1,307	35.87	1,200	34 96
3	3,318	37.76	4,911	34.49
4	14,523	19.31	19,148	19.29
Total A	$65,781	23.10	$ 61,434	23.36
B-5	$53,940	11.81	$ 62,944	10.51
5S	7,447	15.18	7,250	13 93
6	7,815	14.08	13,420	14.34
7	3,882	8.38	5,633	16 31
8	15,459	10 82	19,556	7.32
Total B	$88,543	11.97	$108,802	10.92
C-9	$ 566	25.51	$ 731	37.70
10	1,350	30.02	2,578	29.49
11	1,946	35.50	893	27.24
12	116	27.80	46	14.67
Total C	$ 3,978	32.06	$ 4,248	30.49

Exhibit 8. J. L. GAINEY Co. (A). Summary of Operations for February (*Continued*)

February Expenses for New York Office

	This year	Budget	Last year
New York expenses for the month:			
Salaries	$11,604		$13,810
Travel	686		607
Autos	933		847
Freight and tracking	7,197		5,557
Rent	700		700
Storage	449		3
Heat and light	437		95
Telephone and telegraph	662		399
Insurance	200		215
Repairs	397		59
Postage	35		89
Taxes	972		912
Refrigeration	363		179
Depreciation	250		
Building expenses	2,396		
Sundry expenses	1,624		935
Total	$28,905		$24,407
% increase over last year	18.43		
New York expenses for year to date:			
Salaries	$22,908		$26,938
Travel	1,536		1,489
Autos	1,882		1,758
Freight and tracking	11,699		11,099
Rent	1,400		1,400
Storage	523		5
Heat and light	522		321
Telephone and telegraph	896		832
Insurance	400		430
Repairs	410		864
Postage	74		109
Taxes	2,003		1,808
Refrigeration	363		450
Depreciation	500		
Building expenses	6,996		
Sundry expenses	2,930		2,674
Total	$55,042		$50,177
% increase over last year	9.70		

Exhibit 8. J. L. GAINEY Co. (A). Summary of Operations for February (*Continued*)

PART IV. Profit and Loss Statement for the Perry Company

	This year	% of sales	Last year	% of sales
Period February:				
Gross sales. . .	$42,319		$41,483	
Less returns	390	0.9	269	0.7
Net sales . .	41,929		41,215	
% increase.. .		1.5		
Cost of goods sold	28,415	67.8	29,901	72 6
Gross profit .	13,514	32.2	11,314	27.4
Operating expenses:				
Advertising	$ 765		$ 129	
Selling .	4,387		5,019	
Shipping ..	1,616		1,349	
Administrative .	3,795		3,535	
Total	$11,563	27 6	$10,032	24 3
Net operating profit	$ 1,951	4 6	$ 1,283	3 1
Sundry gains and losses (net)	329	0.7	340	0.8
Net profit before taxes	1,622	3.9	943	2.3
Provision for federal taxes	600	1.4	300	0.7
Net profit after taxes	1,022	2.5	643	1.6

(A similar profit and loss statement for the Perry Company was prepared monthly for the year to date.)

94. J. L. GAINEY CO. (B). Problems of Installing a Punched Card System for Inventory and Sales Control

In November, 1951, executives of the J. L. Gainey Co. reviewed their experience with a punched card accounting and inventory control system to determine whether it should be retained.

The system was installed in July, 1951, primarily to provide more detailed sales and profits analyses on the 8,850 different items [1] of supplies and equipment sold to bakeries, soda fountains, ice cream and confectionery manufacturers, restaurants and institutions. The company had 12,000 customers in 13 northeastern and eastern states.

The punched card system, which used International Business Machines Corporation equipment, was adopted soon after the J. L. Gainey Co. had moved into a new building. The latter included a warehouse arranged and equipped for the most efficient handling of merchandise. The use of punched cards with the new warehouse promised important inventory and merchandise selection economies. The new system also appeared to offer other advantages over the methods formerly employed for processing orders, maintaining records, and preparing invoices.

[1] An item consisted of a shipping unit. Usually there were several shipping units of an individual product, one for each size of container.

The Old System. Before punched cards were used, most of the operations connected with handling orders and preparing reports were performed manually. Upon taking an order, the salesman filled out an order blank, original and three copies (Exhibit 1). Descriptions of the items were written by hand.

The salesman forwarded the order to the company's office in Boston. The routine procedure leading to the shipping of goods and the preparation of the invoice and sales reports follows:

1. Mail desk. Between 400 and 500 orders each day were received, sorted and routed.
2. Register desk. A register number was placed on the original and first copy of the order and entered in a running record. The first copy of the order was filed.

Exhibit 1. J. L. Gainey Co. Old Order Blank

BOSTON -- J. L. GAINEY CO. -- NEW YORK

FOLIO No.

APPROVED

Date ____ 194__ Salesman ____

COLLECTION

Trade Name ____

Street ____

City ____ State ____

REGISTER NUMBER

Owner's Name ____

SHIP Rail Express Truck

VIA: Parcel Post Rail

F.O.B

BUYER	QUANTITY	CUSTOMER'S ORDER NO.	DATE SHIPPED	WEIGHT	PRICE			TOTALS	

DOES THIS ORDER WEIGH 200 LBS?

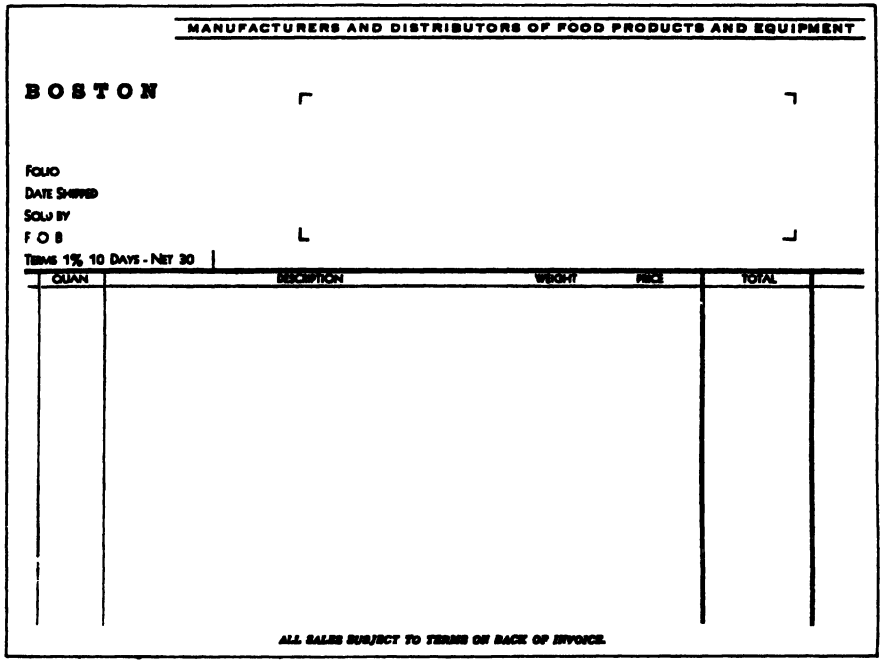
3. Credit department. All orders were either approved or rejected for credit. For each new customer, credit information was entered by the salesman on the special form printed on the reverse side of the order blank.
4. Pricing desk. Prices which had been filled in by the salesman were checked. Orders for merchandise on which special prices had been quoted by the salesman and orders involving contracts were sent to the appropriate product department head for approval. The original and two copies of the order were sent to the shipping department for use in the selection of the merchandise in the warehouse.
5. Shipping department. Merchandise was selected and shipped on either the same day the order was received or the day following. If any items ordered could not be sent because of out-of-stock conditions or other reasons, a note to that effect was made on the order form so that it constituted a record of what actually was shipped. The original and two copies of the order were sent to the billing department.
6. Billing department. The invoice (Exhibit 2) was prepared in triplicate, price extensions were checked, and the bill of lading was prepared. The original copy of the invoice was mailed to the customer. The first copy was sent to the sales department where it was filed by customer in the permanent duplicate bill file after the sales total had been pasted to a Kardex record of sales by salesmen by accounts. The second copy went to the costing department.
7. Costing department. The cost of the merchandise ordered was filled in on the second copy of the invoice. In this connection, changing prices of goods bought for resale created a problem of timing changes in cost figures. The costing department did not know exactly when the goods bought at the old price were cleared from inventory and when merchandise bought at the new price was being used to fill orders. Estimates were made which were subject to error but believed to be reasonably accurate in most cases.

Totals from the costed invoices were tabulated manually to prepare daily reports of sales by departments and by salesmen, and monthly breakdowns of sales and gross profit by departments, by salesmen, and by salesmen by departments. When the system ran smoothly, daily sales reports were available 3 to 4 days after the orders were received. However, delays in this schedule were frequent.

The above reports were distributed to the chairman of the board, president, vice president in charge of merchandising, vice president in charge of the equipment division, vice president in charge of manufacturing, treasurer, sales manager, operations manager and the 15 product department heads who had merchandising and buying responsibilities.

Procedures outlined above had been used for about 25 years with only minor modifications from time to time. An advantage of the system was that little paper work was required before the shipment of an order, thus permitting promptness. Also, an order was easy to locate if it became necessary to make additions after processing had started. The system was flexible enough so that a rush order could be expedited.

Exhibit 2. J. L. GAINEY Co. Old Invoice Form


MANUFACTURERS AND DISTRIBUTORS OF FOOD PRODUCTS AND EQUIPMENT

BOSTON

FOLIO
DATE SHIPPED
SOLD BY
F O B
TERMS 1% 10 DAYS - NET 30

QUAN	DESCRIPTION	WEIGHT	PRICE	TOTAL

ALL SALES SUBJECT TO TERMS ON BACK OF INVOICE.

The smooth operation of the system was disrupted by various difficulties. Illegible orders sent in by salesmen caused much trouble in the office and delayed shipping and billing. Out-of-stock conditions often held up orders. No perpetual inventory records were kept; instead, periodic sight checking was relied upon for inventory control. Frequently the first indication a buyer received of an exhausted inventory was a note saying that a certain item had been omitted from an order.

The New System. Under the new system, writing up an order was a simpler task. Only the original and one copy were required, and code numbers replaced handwritten descriptions of merchandise. Credit and other customer information were filled in on the front of the order blank (Exhibit 3). The quantity, price and code number of each item ordered were recorded on the reverse side on a form designed so that all entries easily could be made in code number sequence (Exhibit 4). The salesman ascertained prices and code numbers from his price book (Exhibit 5).

Processing of orders at the company office involved the following steps:

1. Mail desk. Orders were received, sorted and routed.
2. Order desk. Telephone orders were received in addition to the orders from the mail desk. Invoice numbers were placed on both the original and the

Exhibit 3. J. L. GAINEY Co. New Order Blank

BOSTON J. L. GAINEY CO. NEW YORK

Sheet No. No. of Sheets

Date Salesman No. Account No. Cust. Order No.

Register Number

Credit Approval

Collections

Owner's Name

Business Name

Street

City

Ship to:

Ship Via: Rwy. Express Parcel Post	Truck Rail	F. O. B.	Special Instructions

NOTICE TO SALESMAN

Credit information must be given below, failure to do so will only delay your order.

CREDIT INFORMATION

1. Reference
   Street No.
   City
2. Reference
   Street No.
   City
3. Reference
   Street No.
   City

Name of Customers Bank

Line of Business — Wholes. / Retail

How long at this address?

If just purchased whom did buyer succeed?

Where Previously?

Weekly Volume of Business

Condition of Stores: Equpt. Oven.

No. of Help

copy of each order. The duplicate was placed in the register file and the original was sent to the credit department.

3. Credit department. All orders were either approved or rejected for credit. Approval by the treasurer was required on all new accounts.
4. Pricing and editing. Each order was checked to see that it was filled out correctly. When special pricings made by the salesman and contracts were involved, the order was sent to the appropriate product department head for approval. Department heads also handled requests for items not carried in the product line. Examples were bleach water and aspirin tablets, which sometimes were included in orders received from summer camps. Such orders had been accepted in the past as a service to customers. An errand boy would be sent out to buy the special items and they would be included with the shipment of the remainder of the order. After the punched card system was installed, the company attempted to discourage the special requests because they slowed down the processing of orders. Some orders of this type still came in, however, and they were serviced to retain good will of established accounts.
5. IBM register. Each order was returned to the order desk. Its invoice number was entered in a register to show that it had cleared the preceding steps and was ready for the IBM room. In subsequent steps, punched cards were involved.

Exhibit 4. J. L. GAINEY CO. Reverse Side of New Order Blank

Qty	Code No 1-4999	Price	Ext	Qty.	Code No 5000-9999	Price	Ext.	Qty.	Code No. 10000-14999	Price	Ext	Qty.	Code No. 15000-19999	Price	Ext.
Qty	Code No. 20000-24999	Price	Ext	Qty.	Code No 25000-29999	Price	Ext.	Qty.	Code No. 30000-34999	Price	Ext.	Qty.	Code No. 35000-39999	Price	Ext.
Qty.	Code No 40000-44999	Price	Ext.	Qty.	Unit	DESCRIPTION — REPACK ITEMS								Price	Ext.

Exhibit 5. J. L. GAINEY Co. (B). A Page from Salesman's Price Book

October 31, 1951 B-5S-5

COCOA

(f.o.b. Boston 1¢ less)

BENSDORP (Imported—22 24% Fat)

21110—Royal Dutch	100# Drum	.50—½ lb.
21112—Royal Dutch	50# Drum	.51—½ lb.
21114—Royal Dutch	25# Drum	.52—½ lb.
21116 - Royal Dutch	4/5# cs.	.64—½ lb.
21118—Royal Dutch	5# can	.66—½ lb.

ORIENTAL (18% Butterfat)

21120 —	100# Bag	.49 lb.
21122—	50# Drum	.50 lb.
21124—	25# Drum	.51 lb.
21125—	5# Pkg.	.54 lb.

PRIDE (10–12% Butterfat)

21160—	100# Drum	W
21162—	100# Bag	.346 lb.
21164—	50# Drum	.376 lb. D
21166—	25# Drum	.382 lb.

QUINCY (12–15% Butterfat)

21180—	100# Bag	.47 lb.

VAN HOUTEN (Dutch Process—25%)

21220—New Dutch	200# Bbl.	.64 lb.
21222—New Dutch	100# Drum	.65 lb.
21224—New Dutch	50# Drum	.66 lb.
21226—New Dutch	25# Drum	.66—½ lb.
21240—Rona	180# Bbl.	.62 lb.
21242—Rona	100# Drum	.62—½ lb.
21244—Rona	50# Drum	.63—½ lb.
21246—Rona	25# Drum	.64—½ lb.

6. Preparation of the invoice.

a. The customer's name and address and routing cards were pulled from the master file (Exhibits 6 and 7). These cards were pre-punched with various information, some of which was printed later on the invoice. The customer's name and address and account number were printed from the name and address card, and the means of shipment and the salesman's number were printed from the routing card.

b. An invoice card was key punched to contain the following information which was later printed on the invoice: shipping basis (Boston or outside of Boston), date of order, date of invoice, invoice number, and special instructions pertaining to the individual order (Exhibit 8).

c. Commodity detail cards were pulled from the unit inventory control file or "tub file." This file in effect was a miniature warehouse in that each card should represent a shipping unit of merchandise actually in the warehouse. Cards were added to the file when merchandise was received and removed when goods were shipped. The tub file was divided into sections, one for each item. Each product was identified by a code number

printed in large numerals across the end of the card. As items were listed on the order blank in code number sequence, the selection of commodity cards from the tube file was facilitated.

A commodity card (Exhibit 9) was pre-punched with the following information about the item it represented: the number of the product department to which it belonged, item code number, warehouse slot number which indicated the item's location in the warehouse, the quantity represented by the card, the shipping unit, the alphabetical description of the item including its pack and size, the cost, f.o.b. price, delivered unit price and gross weight.

d. Commodity cards were "mark sensed" if changes had to be made in pre-punched information. This frequently was necessary because of price changes. In "mark sensing" a card for a price change, a special mark was made with an electrographic pencil over the appropriate numbers representing the new price. The mark sensed card then was run on a reproducing machine which read the mark sensed information and automatically punched the new price into the columns reserved for this purpose. When the card was run on a tabulating machine in subsequent operations, the pre-punched price was ignored by the machine and the new price was picked up instead.

e. The salesman's number, customer's number and designation of type of customer were gang punched from the name and address card into the commodity cards pulled for the order.

f. Commodity cards were sorted and arranged in warehouse slot number sequence.

g. The invoice card, customer name and address card, customer routing card, and the commodity cards were run on a tabulating machine which automatically prepared a combination invoice and shipping authorization (original and 3 copies) (Exhibit 10).

In the body of the invoice, lines representing more than one shipping unit of a single item were printed by the machine after it had totaled the number of commodity cards pulled for that item. For instance, 5 commodity cards were necessary to make the first entry, "B/A lemon pie fill," in Exhibit 10. Only one commodity card was used for the second entry, "B/A baking powder," because only one shipping unit of that item was ordered. The tabulating machine was equipped with a special device for listing single cards for any line and accumulating totals for multiple-card lines.

At the bottom of the invoice, totals were printed for the dollar amount and gross weight (right-hand columns, Exhibit 10). At the same time the totals were printed, a summary card was punched with various totals for use later in preparing a register of shipments and statistical analyses. The summary card contained the salesman's number, customer's number and name, cost of the merchandise listed on the invoice (to be posted in the general ledger), selling price of the merchandise (to be used in making up accounts receivable), and gross profit on the order (to be used in computing the salesman's commission).

h. The original of the invoice was held in the IBM room until a check had been made to determine whether all items actually were shipped. Then the in-

voice was mailed to the customer. The three copies went to the warehouse to be used in the selection and packing of merchandise for shipment. As the items were listed on the invoice in warehouse slot number sequence, merchandise could be selected continuously from the first item to the last and all back tracking by the selector was eliminated. When this step was completed, the copies of the invoice were returned to the IBM room where they were matched against the original order and the customer copy. Any changes were noted. If changes were necessary, a new invoice had to be prepared. One copy then was attached to the original order and filed. The other two copies comprised the bill of lading set.

Reports under the New System. Daily reports of sales by product departments were prepared for Gainey's Boston operation, the New York house, and the Perry Company Division. The reports gave sales today, sales for the

Exhibit 6. J. L. GAINEY Co. Customer Name and Address Card

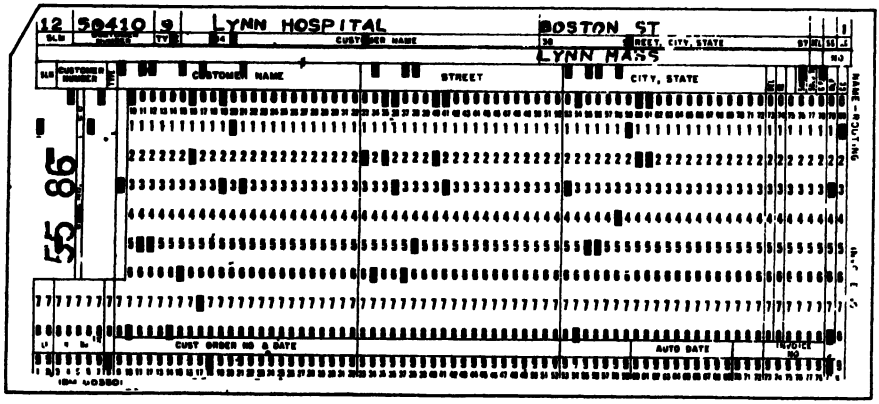


Exhibit 7. J. L. GAINEY Co. Customer Routing Card

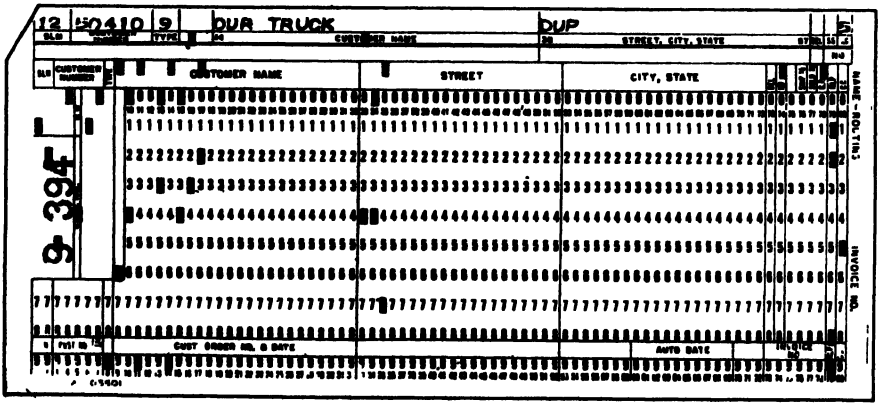


Exhibit 8. J. L. GAINEY Co. The Invoice Card

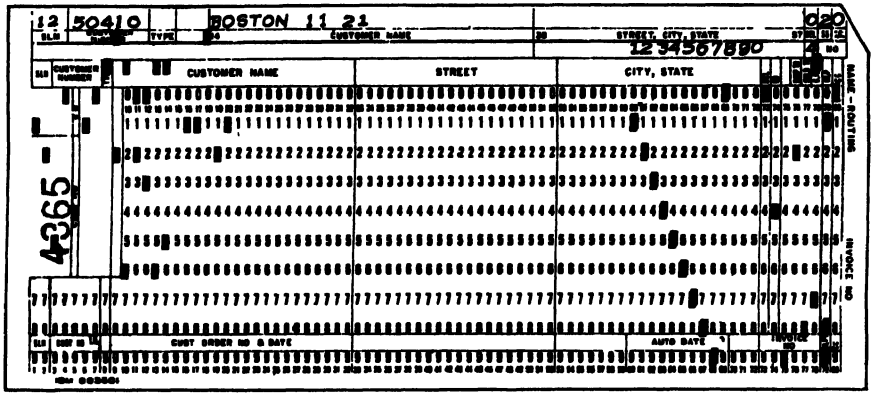
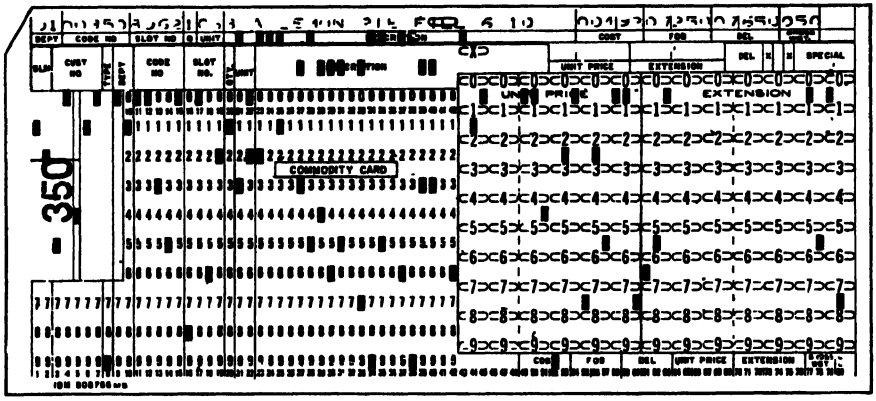


Exhibit 9. J. L. GAINEY Co. Commodity Card



month to date, and gross profit today (Exhibit 11). In another column, total sales for the month to date a year ago were entered by hand.

The mechanical steps involved in making up these reports included sorting the commodity cards used in processing the day's orders and arranging them in department number sequence. The cards then were run on a tabulating machine which printed department totals for sales and gross profit. Department totals for sales to date this month were printed at the same time. The only difference was that the totals for the month prior to "today" were added from departmental summary cards prepared for this purpose. As the daily sales report was printed on the tabulating machine, a new month-to-date summary card, which combined the totals for "today" and for the month prior to "today," was punched automatically for each department. The new month-to-date cards were used in preparing the next day's sales report.

Exhibit 10. J. L. Gainey Co.

MANUFACTURERS AND DISTRIBUTORS OF FOOD PRODUCTS AND EQUIPMENT

46305

CUST ORDER NO AND DATE: BOSTON 11/21 — MO 11 DA 26 YR 51 — INVOICE NO 49287

SOLD TO AND OR

SHIPPED TO: LYNN HOSPITAL / BOSTON ST / LYNN MASS — ACCOUNT NO 5 410

SHIPPED VIA: OUR TRUCK DUP — SM NO 12 — TERMS 1% 10 DAYS NET 30

LOCATION	QUANTITY	UNIT	DESCRIPTION	PACK & SIZE	UNIT PRICE	TOTAL	
8062	5	CS	B/A LEMON PIE FILL	6/10	7 25	36 25	250
J999	1	CN	B/A BAKING POWDER	1/7LB	1 26	1 26	
94	5	CS	DIETETIC RA CHERRY	24/2	6 40	32 00	185
96	5	CS	DIETETIC FR COCKTL	24/2	6 50	32 50	185
103	5	CS	DIETETIC YC PCH SL	24/2	5 35	26 75	185
102	1	CS	DIETETIC Y C PCH HV	24/2	5 65	5 65	
380	5	CS	DIET PEAS	24/2	5 05	25 25	190
377	5	CS	DIET SPINACH	24/2	4 50	22 50	175
420	5	CS	B/A DICED GR PEPPER	24/2	5 70	28 50	185
421	7	CS	B/A DICED RED PEPPER	24/2	5 70	39 90	259
	1	JR	BEEF BULUN CUBES	1/100	1 35	1 35	
	1	JR	CHICK BULUN CUBES	1/100	1 35	1 35	
						253 26	1614

ALL SALES SUBJECT TO TERMS ON BACK OF INVOICE

SELLER REPRESENTS THAT WITH RESPECT TO THE PRODUCTION OF THIS ARTICLES AND/OR THE PERFORMANCE OF THE SERVICES COVERED BY THIS INVOICE IT HAS FULLY COMPLIED WITH SECTIONS 12 1 61 OF THE FAIR LABOR STANDARDS ACT OF 1938 AS AMENDED

PAY THIS AMOUNT

Another daily report gave sales today, sales this month to date, gross profit today, and sales for month to date last year for each salesman (Exhibit 12). The steps involved in preparing this report were similar to those described above except that the commodity cards were sorted by salesman instead of by product department.

Daily reports were to be available one day following the day they covered. This schedule had not been met, however, because of various difficulties. Early in November, there was a 6-day delay, but this was considered a temporary condition.

A monthly report was prepared for each salesman showing his sales and gross profit by customer (Exhibit 13). Invoice summary cards were used in making up this report. They were first sorted by salesman. Next the cards for a given salesman were sorted by customer. The cards were run in cus-

Exhibit 11. J. L. GAINEY CO. (B). Daily Sales by Departments—August 29

Gainey (Boston)	Sales today	Sales for month to date	Gross profit today	Sales for month to date last year
A-1	169,103	5,259,326	55,683	
A-2	29,260	1,400,796	10,721	
A-3	75,000	3,935,758	28,963	
A-4	100,627	1,396,671	13,108	
	373,990	11,992,553	108,475	
B-5	488,966	14,897,588	64,575	
B-S	137,689	3,082,662	18,708	
B-6	89,705	4,165,465	18,370	
B-7	174,893	5,739,678	30,033	
B-8	281,388	2,645,452	51,852	
	1,172,641	30,530,845	183,538	
C-9	.	766,879		
C-10	46,342	1,979,169	18,078	
C-11	1,350	559,674	675	
C-12	.	51,345		
	47,692	3,357,067	18,753	
Manuf. goods	42,331	1,440,183	22,699	
Resale foods	.	10,984		
Ret. cherries	3,120	9,641	1,224	
Murray equip.	...	10,490		
Coca-Cola	720	80,355	108	
	46,171	1,551,653	24,031	
	1,640,494	47,432,118	334,797	608,090.45

(Similar reports were prepared for the New York house and for the Perry Company Division.)

Exhibit 12. J. L. Gainey Co. (B). Daily Sales by Salesmen—August 29

Salesman's number	Salesman's name	Sales today	Sales this month to date	Gross profit today	Sales for month to date last year
1	Benson	25,211	785,093	4,948	
2	Bickford	63,058	1,052,718	12,945	
3	Bicou	26,633	603,295	5,635	
4	Bingham	22,875	1,040,552	2,586	
5	Bossman		1,006,969		
6	Clear	43,477	1,353,366	8,126	
7	Cosgrove	16,338	940,804	2,894	
8	Dinsmore	31,393	1,657,543	7,566	
9	Elliott	207,431	1,723,497	34,944	
10	Farrell	46,267	2,241,280	16,297	
11	Field	16,355	1,703,942	3,371	
12	Fournier	11,559	575,874	2,876	
13	Garland	3,280	1,987,503	515	
14	Hurst	2,736	1,721,724	860	
15	Jordan	297	735,571	87	
16	Keenan	3,466	1,068,969	1,303	
17	Kelly	48,201	859,586	12,515	
18	King	70,116	1,288,689	16,932	
19	Laban	24,175	1,526,844	8,932	
20	Langton	357,129	7,315,673	61,975	
21	Letty	1,872	1,345,939	565	
22	MacPhail	75,679	1,504,817	9,492	
23	Malden	121,274	1,473,519	21,098	
24	Marwick	49,737	1,246,354	18,124	
25	Melow	3,550	279,317	1,166	
26	Ober	55,980	1,718,337	9,940	
27	Rice	27,560	1,421,250	15,035	
28	Soule		56,837		
29	Sumner	. .	1,122,768		
30	Weston	91,823	918,604	19,621	
31	Wilkins	9,781	1,096,465	2,506	
32	Zink	63,817	1,456,093	12,194	
45	Govt.	69,800	750,831	8,200	
46	Store	14,079	458,007	2,586	
47	Nod	32,915	358,932	8,663	
49	Misc.		3,765		
		1,639,894	46,411,327	334,497	
50	Petty	.	231,001		
51	Thurlow		607,540		
52	Urban		111,700		
59	Misc. equip.	600	70,550	300	
		600	1,020,791	300	
		1,640,494	47,432,118	334,797	
60	Anderson	17,470	1,018,949	2,687	
61	Berry	.	497,370		
63	Coy		469,831		
64	Devlin		1,422,441		

Exhibit 12. J. L. GAINEY Co. (B). Daily Sales by Salesmen—August 29 (*Continued*)

Salesman's number	Salesman's name	Sales today	Sales this month to date	Gross profit today	Sales for month to date last year
65	Gibson		813,800		
66	MacRae	9,500	3,602,888	917	
67	Mean		305,418		
68	Schmidt	31,075	645,059	7,277	
70	Tess		97,221		
78	N.Y. House	12,540	145,544	2,071	
79	New York sta.		1,000		
		70,585	9,019,521	12,952	
80	Darow	12,906	817,756	5,137	
82	Ducklin	26,690	321,204	9,134	
83	Emerson	396	541,236	54	
84	Jack	51,210	1,162,389	17,909	
85	Lutz	9,331	1,218,105	3,135	
86	Moran		832,006		
87	Rutland	990	536,117	417	
88	Tucker	27,752	253,474	9,206	
		129,275	5,682,287	44,992	
98	House	86,780	847,805	29,359	
99	Misc.				
		86,780	847,805	29,359	
		216,055	6,530,092	74,351	
		1,927,134	62,981,731	422,100	

tomer number sequence and sales and gross profit information for each card was listed by the tabulating machine.

Only the above reports had been made available. However, other reports, which had been prepared regularly under the old system, were being examined to determine whether they should be reinstated. In addition, the treasurer planned to undertake the following analyses in the future: (1) sales and gross profit by customer, (2) sales and gross profit by item for each salesman, (3) sales and gross profit by item for each customer, (4) sales and gross profit by item for each department, and (5) inventory turnover by item.

Inventory Control. In addition to the sales and profit analyses, the punched card system was expected to provide effective inventory control so that stock balances would be available for use in costing, buying and shipping. A perpetual inventory was kept to reflect each stock movement, unit by unit. Therefore, information was to have been readily available on what was received, what was shipped and what was on hand.

Exhibit 13. J. L. Gainey Co. (B). Monthly Report on Sales by Customer for Each Salesman

Salesman's number	Customer's number	Monthly sales	Gross profit
	14,059	730	146
1	14,060	714	100
1	14,140	849	179
1	16,265	3,727	839
1	16,270	4,222	1,531
1	16,860	2,463	1,050
1	17,290	18,175	4,025
1	17,410	10,406	2,796
1	19,945	2,644	1,274
1	21,380	13,758	2,714
1	23,920	2,740	400
1	29,910	4,520	1,040
1	31,770	11,621	3,860
1	32,000	15,437	4,202
1	33,190	20,303	5,217
1	33,300	5,792	1,159
1	33,450	8,630	1,040
1	35,270	3,425	1,007
1	39,115	4,770	630
1	39,120	1,000	305
1	39,125	1,990	600
1	41,730	33,505	4,211
1	46,070	7,193	1,196
1	47,790	66,459	11,096
1	53,431	33,375	11,919
1	53,433	171,586	64,928
1	54,220	21,533	4,776
1	57,560	19,198	5,103
1	57,600	44,889	7,297
1	57,700	17,496	11,298
1	57,701	38,088	8,040
1	57,702	3,000	637
1	57,703	2,400	480
1	57,704	897	230
1	57,705	7,800	1,597
1	57,707	3,000	637
1	57,710	2,400	480
1	58,240	27,978	6,041
1	58,757	71,743	15,779
1	60,800	17,694	4,170
1	69,790	27,825	7,188
1	72,610	6,104	1,184
1	72,615	22,084	5,591
1	73,760	12,040	1,659
1	78,280	460	185
1	81,430	450	201
1	82,828	10,230	900
1	92,004	694	121
		808,037	211,058

The tub file of commodity cards was designed to give a quick picture of the stock situation in the warehouse. The file was divided into many sections, one for each item in the product line. Cards were placed in the file end up so that the code numbers and serial numbers printed across one end could be read. A code number identified all cards representing the same item. Serial numbers running from one up were printed when cards for a given item were prepared on the receipt of an incoming shipment of merchandise. The cards were placed in the appropriate tub file section so that the lowest numbered card was in front. New cards representing later receipts were inserted in front of the cards already on file. Therefore, each section of the file might contain several groups of cards for the same item, each serially numbered. The groups were separated by high divider cards. When a card was needed for the filling of an order, the one at the back of the section was taken.

When only one shipment group of cards was in the file for a given item, the inventory could be read simply by referring to the highest numbered card. If several groups were present, the highest number for each group was added to give the inventory. The current inventory reading subtracted from the previous inventory total plus any receipts gave the quantity shipped during a period.

"Time to buy" signals, consisting of "minimum," "danger," and "out-of-stock" cards of different colors, were inserted at selected points in each division of the tub file. The signal cards were removed when they were encountered as commodity cards were pulled to fill orders. The signal cards were either sent to the buyer directly or listed by a tabulating machine to prepare a time to buy report for the buyers.

The punched card inventory control system had been installed for all Gainey items except equipment. It had not yet been extended to equipment or to the Perry line although this was planned for the future.

The tub file on the New York stocks was maintained in Boston. After shipping an order, the New York house sent the order form to Boston for processing and billing. The Boston and New York offices were in contact with each other daily by telephone.

Accounts Receivable. The company was not preparing accounts receivable statements directly from punched cards, although it planned to do so after some of the problems connected with installing the new system had been solved.

As of November, 1951, accounts receivable posting was done manually from daily records of shipments which listed for each invoice the salesman, customer and invoice numbers, customer's name, gross profit, the date, and the total price. The daily listings were prepared from the summary cards which were automatically punched when totals were printed on the invoices.

If statements were to be printed from punched cards, the invoice summary

cards would be placed behind customer name and address cards in an accounts receivable file and used in the maintenance of customer accounts. If credit was issued for returned merchandise, a card would be key punched for the amount of the credit and placed in the file. As payments were received, the cards for invoices on which payment had been made would be withdrawn and listed to prepare a register of cash received and to establish control totals. Customer statements would be prepared monthly from the cards remaining in the open item file. The statements would show all open items, credits and balance due.

The company did not plan to use the punched card accounting system for either accounts payable or the payroll.

Installing the New System. The introduction and operation of the new system was the responsibility of the treasurer. To prepare himself for this task, he attended a one-week course in IBM accounting for wholesale distribution given by IBM's department of education in Endicott, N.Y.

A few weeks prior to the changeover, a one-hour meeting was held on company time to announce plans for the introduction of punched card procedures to the 200 salesmen, office, warehouse and shipping people whose jobs would be affected by the change. The program included an IBM movie on how punched cards were used and talks by the treasurer of the company and a representative of IBM. The program was repeated, 100 employees attending each session.

None of the Gainey employees was experienced in punched card methods or equipment. In addition, it developed that a number were not suited to this type of work which differed considerably from the clerical tasks they had performed for many years. In installing the new system, the company found it necessary to change a number of job assignments, and to hire six new people who had worked with IBM machines. In addition, several girls were sent to a 2-week school for key punch operators. No employee was to be dismissed because of the changeover.

Two IBM representatives worked with the company during July, the first month under the new system. They returned several times in later months to try to help solve various operational problems.

Problems under the New System. The company encountered many problems as it tried to get the punched card system to function smoothly. Many errors were made in handling orders. Customer dissatisfaction mounted. So did work pressure and tension within the company's offices as executives and employees sought effective control over the new procedures.

Pacifying irritated customers occupied much of the time of executives and salesmen. Complaints arose from errors in merchandise shipped, errors in billing, delays in shipments and delays in the receipt of bills. Business suffered because of the customer dissatisfaction.

In analyzing the troubles, one executive noted several classes of errors as follows:

1. Number errors. Incorrect figures appeared on invoices due to salesmen's mistakes on the original order, the pulling of the wrong cards in the IBM room, incorrect key punching, and, occasionally, typographical errors in code numbers appearing in the salesman's price book.
2. System errors. Some errors were believed to have been caused by the nature of the system. Lost orders were a problem, especially during the first month or two. Some orders disappeared for a day or so after they had started to be processed. A few lost orders were never found. Explanations were difficult to make. The product department heads were responsible in some cases because they failed to return promptly the orders referred to them for approval of special prices or contracts. But this difficulty had been largely corrected. Lost orders prompted complaints because they meant delayed shipments.

   Special instructions, which accompanied about 10% of the orders, were an important source of errors. Sometimes customers asked that their bills be prepared on special forms instead of the usual invoice blank. The majority of special requests, however, was shipping or delivery instructions which were to be reproduced on the invoice. Lengthy instructions had to be edited to fit into the space allotted for them on the invoice card. Editing errors sometimes changed the meaning. For example, a New York City restaurant which did most of its large business during the lunch hour rush had made this request on its order: "Don't deliver between 12 and 2 p.m." In preparing the invoice card, the key punch operator omitted the first word. As a result, the instructions printed on the invoice read: "Deliver between 12 and 2 p.m." In attempting to carry out the orders, the truck driver met angry resistance. The restaurant manager promptly made his displeasure known to the Gainey company in a one-sided telephone conversation.
3. Shippers' errors. Mistakes in selecting and packing merchandise occurred occasionally, but they could not be blamed on the punched card system. Presumably, the use of slot numbers in the warehouse should reduce errors of this kind.
4. Billing errors. Incorrect prices on invoices were a major source of trouble and came in for special attention. They resulted from mistakes in decimal points and price extensions, failures to note that certain orders called for special prices, and failures to use the proper discounts granted to the various classes of trade.

The procedure for handling discounts differed somewhat depending upon whether the product involved was in the Gainey or the Perry line. The Perry Division had 4 classes of discounts. Prices for each class were punched into the commodity card. A code number appeared by each item on the order blank to designate what discount the customer should receive. An operator was to act on this information and mark sense the proper columns of

figures on the card so that the correct price would be picked up by the machine as it printed the invoice. There was less chance for discount errors on Gainey orders, but they occurred nevertheless. Gainey products had two prices, one for f.o.b., Boston, and the other for shipments outside of Boston. The customer name and address card contained information to show which price the customer should receive. If operations went smoothly, the accounting machine read this information and automatically selected the proper set of prices from the commodity card for use on the invoice.

The recently hired machine operators had previously worked with IBM equipment, but they were not familiar with the customary shipping units and prices of products sold by the company. The other employees had worked for Gainey for some time. They were acquainted with the business details but were not experienced in punch card operations. The lack of background contributed to the making of errors.

Night work frequently was necessary in the IBM room to complete the processing of a day's orders. This was true in spite of the fact that the workload was only about one-half of the rated capacity of the equipment. Because the machines were tied up most of the time handling orders, the daily reports were delayed and the more elaborate sales and profit analyses had not yet been attempted.

The company received about 500 orders a day. This meant that 6,000 punched cards were run on the IBM machines daily in the preparation of invoices. The total included 500 customer name and address cards; 500 routing cards; 500 invoice cards; 4,000 commodity cards (one for each shipping unit of a product ordered and an average of 4 per order); and 500 summary cards (one per invoice). The commodity cards were involved in two machine runs, one for sorting by slot number and the other for the printing of the invoice.

Actually the daily card volume handled by the machines was higher than indicated above because many invoices had to be rerun. The number of reruns had declined somewhat, but was 20% of the total in November, 1951.

Out-of-stock conditions in the warehouse were a major cause of reruns. The Perry line and items of equipment had not yet been placed under punched card inventory control. Therefore, commodity cards in the tub file did not represent warehouse supplies. Frequently, orders were put through for merchandise not on hand. When this happened, the warehouse noted the facts on the invoice and returned it to the IBM room where a new invoice was prepared to cover only the merchandise actually shipped.

The company also experienced much difficulty with the inventory system where it was in use. The tub file often was inaccurate for any one of several reasons. Sometimes receipts of goods by the warehouse were not reported promptly, or commodity cards were not added to the tub file soon enough to prevent an out-of-stock condition from being shown when goods were

available. As a result, shipments were either unnecessarily delayed or orders were shipped short.

It also was common for the tub file to show items as being in the warehouse when an out-of-stock condition existed. One explanation was that demand for a number of the products manufactured by the company was so great that very little inventory had been built up. Some items virtually were shipped "hot." When orders for such merchandise were received and the tub file showed no stock on hand, it was customary to ask manufacturing how many units would be ready later that day. If the answer was 10 for a given item, that number of commodity cards was added to the tub file and orders were processed on that basis. However, the manufacturing estimate sometimes proved to be inaccurate. Perhaps only 5 instead of 10 units actually reached the warehouse. In the meantime, 10 orders for the product may have been processed. This meant that 5 were either delayed or shipped short. In the latter event, new invoices were required.

Call order business also led to inventory discrepancies. About 25 orders a day were received from customers who personally called at the plant for the merchandise. These orders were filled promptly from warehouse stocks and did not go through the usual punched card processing. As the number of call orders was small, they had been allowed to accumulate before being forwarded to the IBM room. This meant that the tub file was "long" on some items in the interim.

Reruns of invoices also were due to various errors which were not discovered until the invoice had been printed, and to the fact that weights for a number of items shipped in bulk were not known until the shipping unit had been packed. Examples of the latter were jellies. The standard sized barrels varied in weight even for the same jelly. For such cases, the correct weights were noted on the copy of the invoice in the warehouse after packing. The invoice was then returned to the IBM room where it was rerun after a commodity card for the item had been punched with the correct weight.

Reruns complicated the difficult job of scheduling work in the IBM room. Orders were received throughout the day so it was impossible to have only one large machine run on invoices in the morning. Instead, several smaller runs were necessary to keep the workload reasonably even in the warehouse and shipping room and to assure prompt shipment of merchandise. Because the Perry Division had its own invoice form, separate runs were required for Gainey and Perry orders. With the machines busy most of the time processing orders, it was difficult to find time to make runs for the daily record of shipments as well as the various sales reports. Delays resulted. The November 1 bills were not sent out until November 27, and the end-of-the-month figures for October were not available to company executives until November 28.

A major cause of complaints was the absence of price per pound information on the invoice. The unit price and weight were given, but the unit usually was a barrel, pail or some other shipping container of more than one pound of merchandise. Many customers demanded that the price per pound be included so that they would not have to compute it.

Changes in Organization. Shortly after punched card operations had begun in July, Mr. W. T. Gainey, Jr., who had been head of the New York house, was elected president. He succeeded his father who became chairman of the board. The executive vice president retired August 1 upon reaching his 65th birthday. These top level moves and the introduction of punched card methods gave rise to other changes in personnel and job responsibilities which affected principal executives in the next several months.

The assistant manager in New York was made head of that office. The company's sales manager became a temporary assistant to the president to work on operational problems which had become of major importance under the new system. He later was to take over the territory of the senior salesman upon the latter's retirement. The head of a major product department was named sales manager.

The executive in charge of the company's manufactured goods became senior vice president in charge of merchandising. The head of the Perry Division took over as vice president in charge of manufacturing, at the same time retaining his former duties. Later in the year the credit manager was promoted to a new post as head of general office services.

The treasurer and the operations manager, the other two executives who reported to the president, continued to serve as heads of finance and shipping, receiving and warehousing, respectively. The details of their duties were materially altered by punched card operations, however. The treasurer had direct responsibility for the new system.

Cost of New System. The punched card installation, as it originally was proposed, would consist of the following IBM machines on which the company would pay a monthly rental of $900:

No.	Machine	Rental
3	Alphabetic key punch machines, $25 each	$ 75
1	Alphabetic interpreter	75
2	Sorting machines, $40 each	80
1	Collater	80
1	Reproducing and gang punching machine with summarizing and mark sensing units and card counting devices for serial numbering	145
1	Multiple line print tabulating machine	445
		$900

According to the original proposal, only nine employees would be needed to do the same work which had been performed by 12 persons under the old system. Monthly depreciation charges on equipment used with the old procedures were $100 a month.

Five months after the introduction of the new system, the company was using the equipment itemized above plus another reproducing and gang punching machine which brought the total monthly rental up to $1,045. Fifteen persons were employed in the IBM room instead of nine as had been proposed. They included an assistant manager of the system, four key punch operators, two machine operators, three card selectors and five persons who had various clerical duties.

Office expense connected with the processing of orders and the preparation of sales reports was expected to remain about the same in the future. Some saving in clerical expense should accompany the extension of punched card operations to the handling of accounts receivable. However, if the new system were to pay for itself, it would have to do so largely through better directed selling efforts and warehouse and inventory economies.

The president believed that inventories eventually might be reduced as much as 30% from the $1,700,000 total. More efficient buying, made possible by better inventory control, presumably would contribute to this result. Also, the president thought that studies of sales and profits by products might lead to a cut of up to 20% in the number of items in the product line. Insurance costs would be lower with smaller inventories. The president also was hopeful that the more efficient merchandise selection methods of the new system, along with reduced inventories and the advantages of the new warehouse, might in the long run make possible a reduction of 15 persons in the warehouse staff.

Executive Committee Meeting. Members of the executive committee met in November, 1951, to decide the future of the punched card installation.

The treasurer believed that the system could be made to work satisfactorily and favored its retention. He emphasized that the company's gross profits had been declining because of rising freight costs and expenses. More knowledge about the business was essential, he believed, if the profit level was to be protected. He pointed out that the company did not know whether it was making a profit on all items or on all customers, or whether the salesmen were giving the proper attention to the different products in the line. The use of punched cards, he said, made it feasible to get answers to these and other important questions.

The vice president in charge of merchandising also favored retaining the installation. He recognized that the salesmen, who had to deal directly with the customer complaints, did not like the system, but he was hopeful that the difficulties that had led to errors could be eliminated. He believed that the additional information which the punched card system promised would

be very valuable in directing and coordinating sales and merchandising efforts.

The operations manager had not come to a definite conclusion. On the one hand, he favored the system because it facilitated the selection of merchandise and eliminated much clerical work in the warehouse. These advantages allowed the company to get along with five fewer warehouse employees. On the other hand, the operations manager feared that the new system would tend to destroy the firm's close relationships with its customers. He said that over the years the company had developed a warm, friendly personality and a reputation for personalized service. He believed that punched card operations introduced a highly impersonal quality which was objectionable. To illustrate his point, he criticized the new invoice for being too impersonal in tone. Entries often were difficult to understand because of the extensive use of abbreviations. He believed that the invoice, as well as other paper work connected with the system, suggested that the customer was regarded as just another number rather than as an individual concern in which Gainey had a friendly interest.

The vice president in charge of manufacturing, who also was head of the Perry operations, believed that the company would be better off with its former methods of handling orders and keeping records. The punched card system was not flexible enough, he said, to meet the needs of the firm's business which regularly involved special prices to customers, rush orders and call orders. Also, it had proved to be more costly than the old procedures because it had been necessary to do much night work and to hire several additional persons with IBM experience.

In his opinion, the system had not produced important information which management needed for control and planning. While daily reports were prepared on sales by departments and by salesmen, they often were late and they did not include comparable figures for the previous year. He desired a daily report on all company sales combined in addition to the separate reports which were issued for Gainey, Boston; Gainey, New York; and Perry. Of greatest importance, he said, was the loss in sales which had resulted from customer dissatisfaction over the many errors in shipping and billing. He opposed risking a further loss of business. The cost, he believed, would exceed the benefits the company could hope to realize from the new procedures. He moved that the punched card system be abandoned.

95. KAYLOR COMPANY. Control of Sales Operations

The Kaylor Company, with headquarters in a large California city, was engaged in the wholesale distribution of a wide line of women's, men's, and children's ready-to-wear and a complete assortment of dry goods merchandise. Approximately 65% of the Kaylor line was manufactured or converted by the company itself; the balance purchased from outside sources consisted almost

entirely of articles bearing well-known national brand names. The company operated with a minimum number of sales reports and records. Although the executives were aware that closer supervision of sales activities would be possible through the introduction of a more extensive control system, they were doubtful whether the effect on operations would be sufficiently valuable to offset the cost incurred. The fact that the company was required to operate on a narrow margin of 3% of net sales caused executives to be wary of any proposal to increase the cost of sales control. On the other hand, the executives were willing to consider any improvement in sales control methods which might be accomplished without a disproportionate cost.

The Kaylor Company operated throughout five western states: California, Oregon, Washington, Arizona, and Nevada. Sales were made direct to dry goods retailers by a salesforce of 55 men. Each salesman was paid commissions which were applied against a guaranteed drawing account; necessary travel expenses were borne by the company. The salesmen were under the immediate supervision of the sales manager and the assistant sales manager.

For purposes of sales administration, the company divided its line of merchandise into 10 distinct groups or departments, each of which was headed and supervised by a department manager.[1] Although the department heads maintained no direct supervisory control over the salesforce, it was the general practice for each of these executives to spend approximately 2 to 3 weeks during the year with as many salesmen as time would permit. During this period, the department head would travel with a salesman throughout part of his territory and assist in selling the line, particularly to those customers with whom the salesman might be having difficulty. It was felt that this field work not only would prove beneficial to the salesman but also would enable the department managers to keep in closer contact with the requirements of customers. More effective cooperation could thus be maintained between the salesforce and department managers if the latter were familiar with problems of the salesmen.

In an effort to strengthen and expand the extent of cooperation still further, salesmen were invited to the home office twice annually to discuss each line of merchandise. They were requested to offer suggestions in regard to improvements or additions to a line. It was believed that the opportunity to express themselves would give the salesmen a feeling that they had some voice in the determination of merchandise to be sold and, accordingly, would tend to encourage a spirit of cooperation among them. Every effort was made

[1] The company's line of merchandise was classified in 10 departmental groups as follows:

1. Draperies and oil cloths.
2. Floor coverings and hardware.
3. Silks and woolens.
4. Ginghams, prints, and wash goods.
5. Knit goods.
6. Notions and novelties.
7. Ladies' hose and underwear.
8. Ladies', children's ready-to-wear.
9. Men's wear, hats, and caps.
10. Domestics and blankets.

to make each salesman so enthusiastic about the entire line that he would not be inclined to push "favorite" departments at the expense of others.

The company's control of sales operations was based upon four fundamental types of records: salesmen's order blanks, invoices, customer cards, and a summary of sales by salesmen. These records provided the sales executives with what they considered the minimum amount of data necessary to operate efficiently.

Following the completion of a sale, the salesman was required to fill out an order blank similar to that reproduced in Exhibit 1. In submitting an order to the home office, the salesman segregated sales by departments and prepared a separate order sheet for each department. The sales manager's objective in requiring this procedure was to make the salesman "department conscious" and to cause him to think of the entire Kaylor line rather than the merchandise of only a few departments. In the sales manager's opinion, this routine had been found effective "in making a salesman sell as well as having him act as an order taker."

The second basic type of record employed by the Kaylor Company was the ordinary invoice. As may be seen from a copy reproduced in Exhibit 2, the invoice contained substantially the same data which were found on the salesman's order form. The chief difference between the two types of record lay in the fact that all sales might be recorded on the same invoice, regardless of the company's departmental classification. The salesman's order form, as mentioned above, was written by departments, with a separate sheet for each department. Five copies of each invoice were prepared: the first copy was sent to the customer; the second was retained as an office copy; the third served as a packing slip; the fourth was a register copy; and the fifth was retained as a duplicate invoice.

After goods had been shipped to the customer, a record was made to this effect on a general customer card similar to that shown in Exhibit 3. The customer card contained a record of sales by dollars only, and no reference was made to the manner in which the dollar sales might be distributed by departments. The company maintained no record which would provide this information immediately; in the sales manager's opinion it was not necessary to incur the added cost of maintaining a breakdown by departments of sales to customers. He believed that he could rely upon the ability and long experience of the various department managers to make certain that they were obtaining their due share of the total business secured from any one customer. Although he had found no reason to compile information of this type, the sales manager pointed out that it could be compiled within a reasonably short time by referring either to the salesmen's order blanks or to copies of invoices which the company had on file.

An indication of the number of calls per salesman could also be obtained from the customer record. As illustrated by Exhibit 3, this form allowed for

Exhibit 1. KAYLOR COMPANY. Order blank

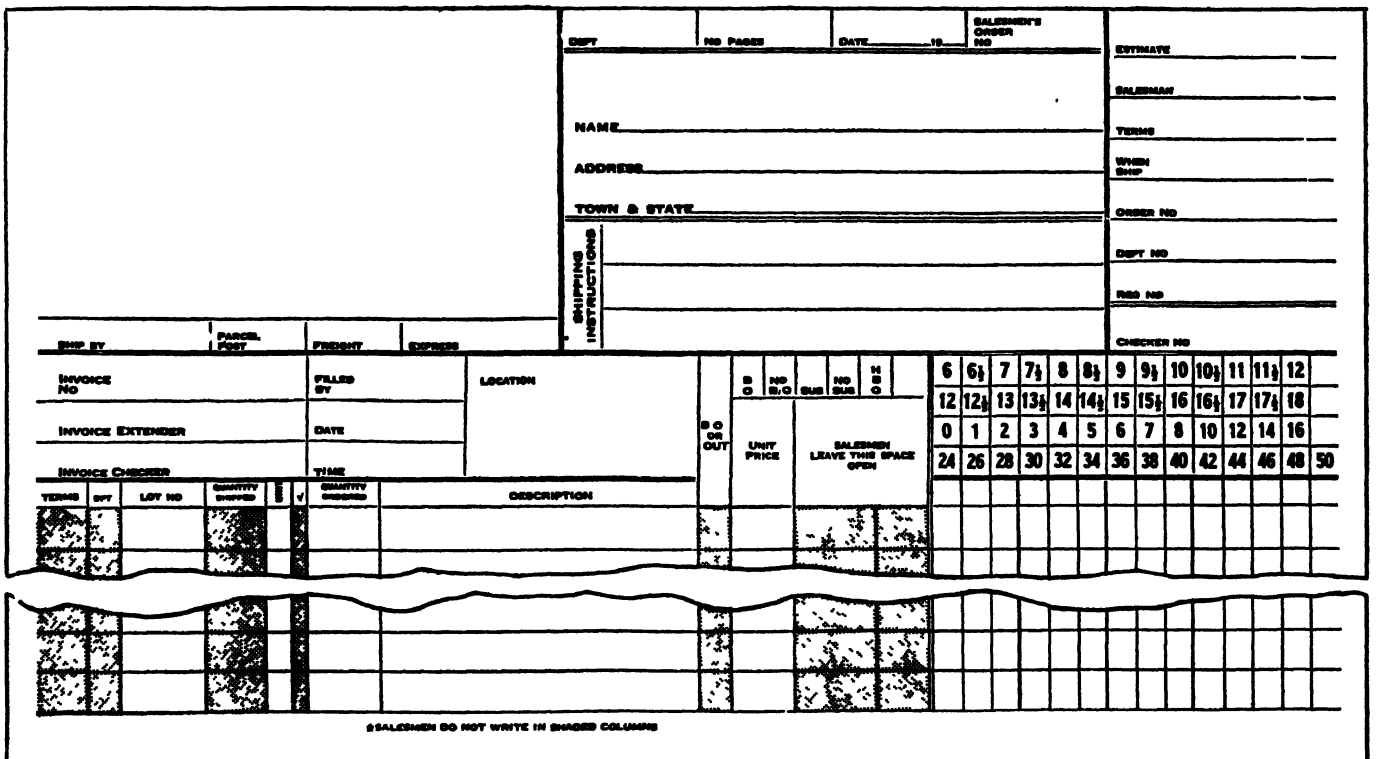


Exhibit 2. Kaylor Company. Invoice form

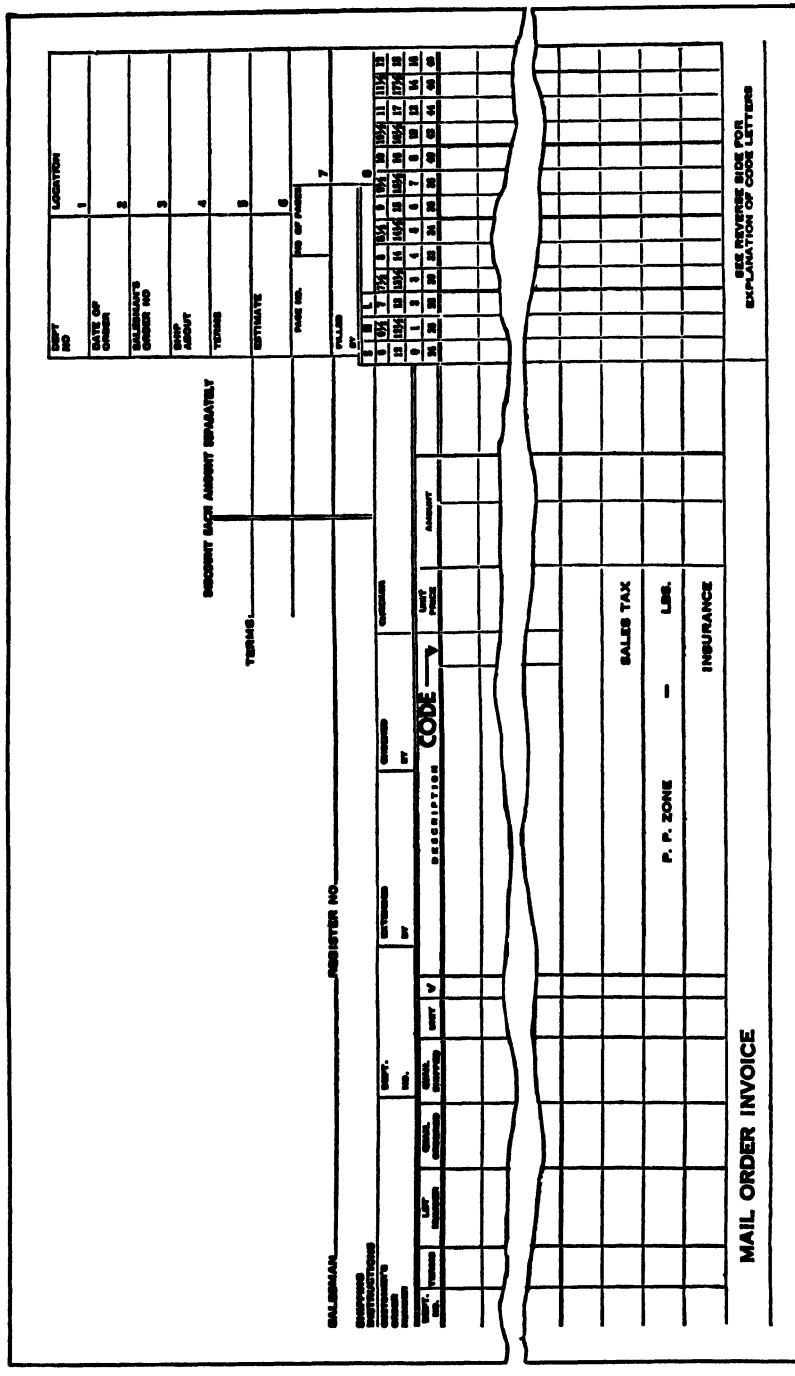


Exhibit 2. KAYLOR COMPANY. Invoice form (*Continued*)

CLAIMS - MERCHANDISE RETURN LIMIT IS THIRTY DAYS

Goods covered by this invoice were delivered in good order to the Transportation Company. Claims for loss or damage must be filed with your local Transportation Agent to insure prompt adjustment.

Errors or omissions made by us will be immediately corrected at our expense upon notification.

Claims accepted subject to the following conditions:

1. Price-marked or soiled merchandise not accepted.
2. Shortages must be reported within five days of invoice date.
3. No goods accepted for credit after thirty days from date of invoice.

Many shortages arise from goods being removed unnoticed with packing material, or removed before checking shipment. Have you checked this order carefully?

CODE FOR REFERENCE IN CHECKING OMISSIONS ON THIS INVOICE

The code letter applying to various items on invoice, indicates reason for omitting. We endeavor to fill all orders completely without delaying shipment making every effort to purchase Shorts through all sources of supply in this market.

A—Not in stock—back ordered—will include with first order after arrival. Weeks.
B—Not in stock—Unable to purchase locally.
C—Item not returnable—bought out for your specific order.
D—Not in stock Replenishment of supply indefinite.
E—Can buy at retail only Shall we do so?
F—Unable to supply original specification Have substituted item which you may return if not acceptable.
G—Item has been discontinued.
H—Letter of explanation mailed.
L—Not made in color or shade ordered.
M—Not made in size ordered.
N—Not in stock Due 6 to 15 days Please advise if we may forward on arrival.
S _____

WE MUST BE NOTIFIED AT ONCE IF THIS BILL IS NOT IN ALL RESPECTS JUST AS THE TRADE WAS MADE, AS NO CHANGE OF TERMS, PRICES, OR CONDITIONS WILL BE ALLOWED AT TIME OF SETTLEMENT.

The time given on this Bill is granted upon faith of the Buyer's commercial standing at the date of purchase, the right being reserved to recall same at any time and have the debt due on demand in case the buyer sells or gives notice of sale, is sued, becomes insolvent, suspends payment, assigns, burns out, removes, encumbers, or otherwise disposes of the stock of merchandise, changes or quits business or dissolves firm

Kaylor Company

Exhibit 3 (face). KAYLOR COMPANY. Sales by Customers (in Dollars)

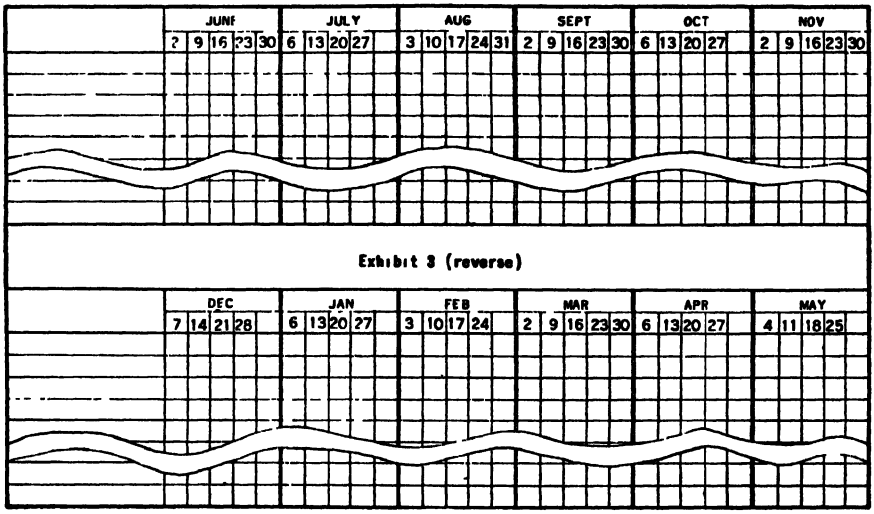


Exhibit 3 (reverse)

the recording of sales to customers according to the week and month in which a sale was made. By reconciling a customer's address with the name of the salesman covering that territory, it was possible to ascertain how many "productive" calls had been made by the salesman, although the record contained no indication of the number of calls made without producing a sale. The weekly expense and sales report (Exhibit 4), however, showed all calls made, regardless of whether a sale had been made or not. In general, reliance was placed upon the experience of department managers in judging whether a salesman was performing his task satisfactorily, and it was believed that these executives were in a position to pass such judgment without the assistance of detailed control records.

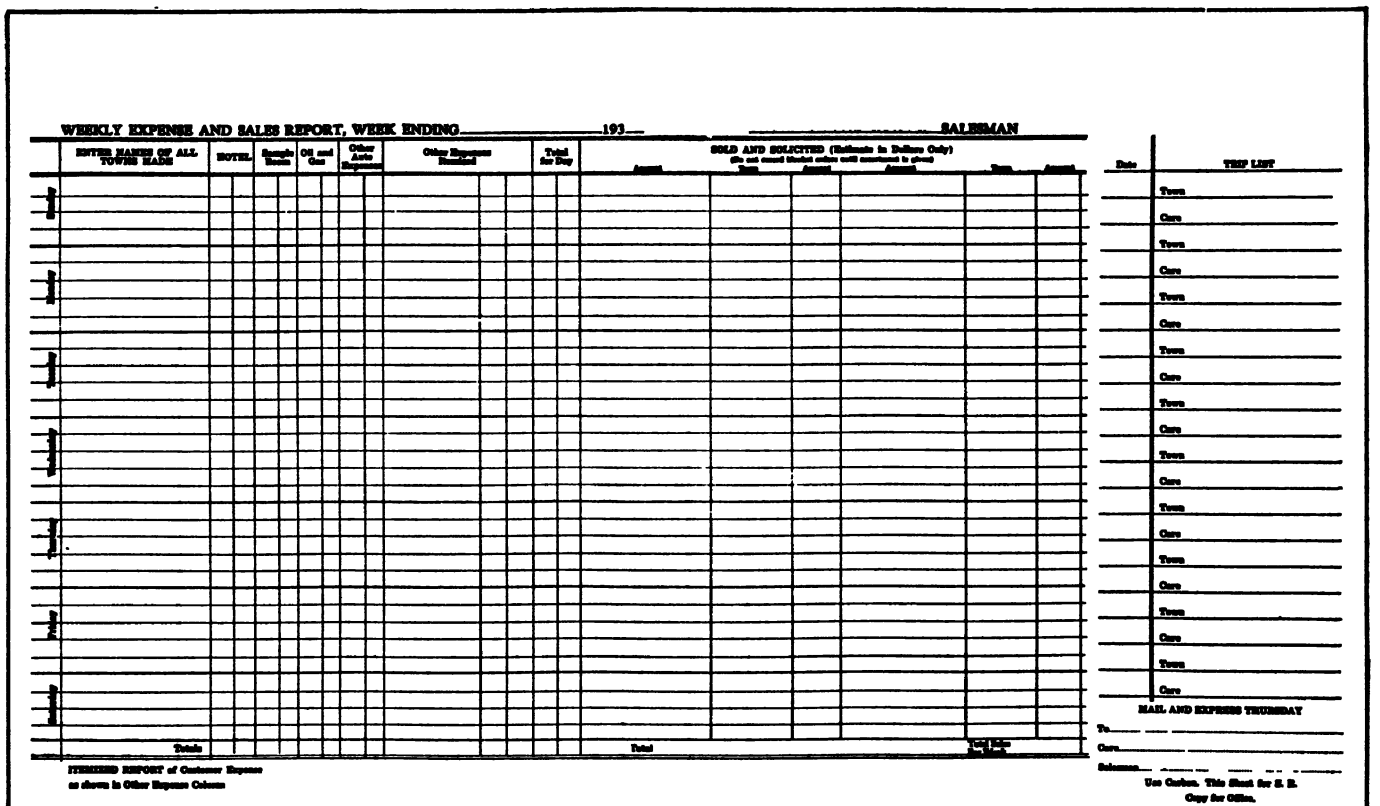
Each salesman was sent monthly [2] a summary sheet indicating his total sales by departments. This form, illustrated by Exhibit 5, contained a record of current sales, sales during the corresponding period of the preceding year, and a reconciliation of the total loss or gain. A column headed "remarks" contained space for the sales manager's comments. This record provided the executives with sufficient information concerning a salesman's activities to enable them to judge his performance; it also provided them with a practical basis for supervision. If sales volume was not favorable in any department, the department manager could be called upon to explain or determine the cause. The salesmen themselves were not given any breakdown of sales by customers, nor did the executives maintain any record which would give this information without further compilation from customer cards.

In addition to the four basic types of control records described above, the company attempted to keep salesmen's expenses at a minimum by requiring each man to submit a weekly report which listed expenses for the period and contained a dollar estimate of the amount of merchandise sold or solicited (see Exhibit 4). It was felt that the combining of the two types of data in one report had a psychological effect upon the salesmen. The executives had found that salesmen disliked submitting a total expense figure which appeared out of proportion to the amount of business obtained during the week. The executives were of the opinion that, by employing an expense sheet of this kind, they could exercise a substantial degree of control indirectly without having to give constant attention to the salesforce.

Although the Kaylor Company's control of sales operations was based upon a minimum number of forms and records, the sales executives believed that they had at their disposal those data which were essential to the efficient conduct of their business under normal circumstances. In the event sales of any line of merchandise were declining, or a salesman's performance was unsatisfactory, or the volume of sales to certain customers was unfavorable, a special report could be compiled from available records to trace the cause

[2] A weekly report was also prepared for executive use, but this report listed total sales only.

Exhibit 4. KAYLOR COMPANY. Weekly Expense and Sales Report



WEEKLY EXPENSE AND SALES REPORT, WEEK ENDING _____ 193__ _____ SALESMAN

	ENTER NAMES OF ALL TOWNS MADE	HOTEL	Sample Trunk	Oil and Gas	Other Auto Expenses	Other Expenses Itemized	Total for Day	SOLD AND SOLICITED (Estimate in Dollars Only) (Do not record blanket orders until confirmed in full) Town	Amount	Town	Amount	Town	Amount
Monday													
Tuesday													
Wednesday													
Thursday													
Friday													
Saturday													
	Totals							Total				Total Sales for Week	

ITEMIZED REPORT of Customer Expense as shown in Other Expense Column

Date	TRIP LIST
	Town
	Care
	Town
	Care
	Town
	Care
	Town
	Care
	Town
	Care
	Town
	Care
	Town
	Care
	Town
	Care
	Town
	Care
	Town
	Care

MAIL AND EXPRESS THURSDAY

To _____

Care _____

Salesman _____

Use Carbon. This Sheet for S. S. Copy for Office.

Exhibit 4. KAYLOR COMPANY (*Continued*)

SALESMAN'S EXPENSE REPORT

Week Ending.....19 ...

_____
Salesman

Amount Actual Sales - - $..... .....

Expense for Week - - - $.....

Mail Check to

_____

Care of

_____

To arrive not later than..... .. ...

Approved by

_____
Vice Pres.-Sales Mgr.

Approved for payment

_____
Vice Pres.-Treasurer.

_____

INSTRUCTIONS

Leave your route list for one week before starting on a trip from San Francisco.

On the sold and solicited section write up the name of every customer whom you called on with the amount of sale registered against those sold.

Customer's names which appear without an amount set opposite their name will indicate you called.

Fill out TRIP LIST for at least ten days.

Write up expense account each day and not estimate at the end of each week.

Mail expense sheet and route list each Saturday without fail, and avoid telegraphing for money. We will mail you a check for week's expenses on Thursday evening following.

Never draw on us.

No hotel or board expense are allowed in your home town or your territory headquarters. When you are called into San Francisco, your legitimate transportation and hotel expenses are allowable while en route and in San Francisco.

Under the heading "Hotel" you will find a Column in which you are to set down the fractional, or full days covered by your hotel bill.

All items of expense not provided for under printed headings must be plainly itemized under "other expenses."

When necessary to use sleeper, this should be itemized, stating "From"-where and "To"-where, and the amount shown in the "Hotel" column.

Each day's expense must be added and the amount set down in last column to the right under the heading "Total per Day." All vertical columns containing cash items must also be added, and the total of these, if your additions are correct, will equal the total daily expense.

The cash furnished salesman as a Working Fund is held by him in trust for the specific purpose of paying his traveling expenses, and is not to be diverted to other uses. This cash is not charged to the salesman's personal account, and strict accounting of same must be given in the spaces provided.

MARK CHANGES AND OUTS OF YOUR SAMPLES AS SOON AS YOU GET CHANGE SHEET.

Your samples are your stock in trade. Keep them in shape by checking bulletins promptly. Otherwise you cannot expect to have your order filled satisfactorily.

Work equally hard for all departments. You cannot expect to give satisfaction otherwise.

Check covering weekly expense is not final settlement of the same as your book is subject to audit after check leaves us.

If expense books are not rendered weekly it will be assumed that no expenditures have been made for our account during that period and no payments will be made therefor.

No charges allowed for tips, tobacco or liquors.

Kaylor Company

Exhibit 5. KAYLOR COMPANY. Salesman's Total Sales by Departments

Salesman's Total Sales by Departments

Salesman_____

Territory No._____ _____ 19___

DEPT.	SALES 19	SALES 19	REMARKS
TOTAL			
GAIN			
LOSS			

RETURNED GOODS

TOTAL OF YEAR TO DATE 19___

SAME PERIOD LAST YEAR

MONTH OF 19___

of the trouble. So long as the department heads watched carefully the sales volume of their respective departments, it was believed unnecessary to incur the cost of maintaining other records which, while informative, would contain few additional facts not already known.

Discuss critically the controls used by the executives of the company and indicate any additions which you believe should be considered.

CASES IN BRIEF

1. The Merlin Appliance Company produced a limited line of small electrical appliances such as toasters and flatirons. Annual volume in recent years ranged from $5 to $8 million.

Because production of larger and smaller manufacturers had been very keen and net margins small, the company had endeavored to keep close control of its operation and was constantly seeking to improve that control and lower its costs. It leased a modest installation of IBM tabulation equipment. In the fall of 1954, the president asked the comptroller to make an audit of reports with special attention to sales and inventory to see where economies could be secured. The records and reports it kept for purposes of control of sales, production, and inventory were the following. Some were taken from accounting records; others from the punched cards based on orders, billing, and payroll.

1. A daily chart including sales to date, sales volume, total production schedule for the month, sales volume of actual production to date, together with sales value of the inventory on hand. This went to the president, three vice presidents including the vice president in charge of sales, and to the comptroller and treasurer.
2. A daily report distributed to the same group entitled "Daily Conditions" report. It reflected the current financial condition of the company as regards principal items except income tax, and showed sales to date for the month. As an integral part of this report, there was prepared by the credit manager a report of trade receivables and amounts. Accounts receivable were given for the previous day, the amounts invoiced, the amounts paid and balances together with past due amount; sales volume for the last month to date, average of last month's sales to this month to date. Cash position was then given for the previous day's deposits and withdrawals. Current liabilities were given for similar periods.
3. Another daily report which showed inventory, production, and other additions of product, together with shipments today, inventory today and month to date, for both production and sales by items. This went to the president, the vice presidents of production and sales, comptroller, and to the production manager, the purchasing agent, and the quality control manager.
4. Every 10 days there was issued a summary of inventory, the production schedule of lump sales, orders on hand, conditional sales, orders, and resulting orders in excess of amount available to ship, and of inventory in excess of orders. From this record, production of models where orders were "short" could be transferred to models in which orders were "over." Data were given both in units and in dollars. A forecast of dollar sales for the month was included and the one-page report went to the same list as report #1.
5. Monthly, a report on production was issued at the beginning of the month

and emphasized the changes as required in sales of material shortages. It included a statement by days for the production, giving both cumulative schedule in units and the cumulative actual production in units.

6. Graphic presentation prepared each day showed the number of units scheduled for the month, the number of units produced to date for the month, the standard cost per scheduled production and standard costs of production to date. On the graph were also bar charts which showed the units by different models scheduled and produced for the month. The practice of the company was to schedule only a limited number of types each month so as to secure better production runs. In addition to the president, the three vice presidents and the comptroller, the production and quality control managers received this graph.
7. Each week a personnel report was issued that was primarily related to the number of employees, transfers, hires, rehires, and vacations or leaves. This was supplemented by a daily direct labor cost analysis for the production manager.

In addition to these reports, the president and principal executives received two detailed reports, one containing financial statements, balance sheets for the end of the previous month, cumulative income accounts to the end of the previous month. Other tables included a statement of gross income from sales and statements as to cost of sales, application of funds, manufacturing and engineering overhead, general manufacturing costs, factory expense, quality control costs, purchasing expense, general engineering expense, selling expense, cost of control division, and general administration. The second detailed report was an operating report referring specifically to detailed analysis of sales by items, detailed inventories by items, both at standard cost and at sales value, detailed production data giving both quantities of production and costs. The figures for the company as a whole were broken down by several departments to give the detail necessary for departmental executives.

Were all these reports necessary for the control of sales operations?

Did the president of the Merlin company need as much detail as was provided him?

Were the reports provided the vice president in charge of sales sufficient to enable him to have the facts for necessary decisions?

2. The Melrose Paper Company manufactured high-grade coated printing papers and box covering papers in its two plants in New England and also distributed a line of printers' and bookbinders' supplies purchased from outside manufacturers. The box covering papers, constituting 35% of total sales, were sold directly to box manufacturers by the company's salesmen; printers' supplies, also constituting 35% of the company's sales, were sold directly to printers and publishers. Three-fourths of the coated paper sales were made by Melrose salesmen in New York and Chicago directly to printers and publishers, and the rest was sold through 25 exclusive paper wholesalers in the major cities of the country. Product sales managers in charge of the selling activity of each of the three divisions supervised the salesforce, accounts, service, and delivery. The product sales managers who were equal in authority and responsible to a vice president were paid straight salaries. The company advertised to some extent in trade publications, by direct mail, and at conventions; the sales manager of the coated paper division supervised the advertising.

The company had 19 salesmen in the field, 12 at the New York branch, 4 at the Chicago branch, 2 at the St. Louis branch, and 1 missionary salesman who worked chiefly with advertising agents and advertisers. All salesmen sold the complete line of the three divisions but each sold at least 50% of his total sales in one division. The salesmen at the New York and St. Louis branches were re-

sponsible jointly to the three product sales managers; and the salesmen in Chicago were responsible to the branch manager, who, in turn, was responsible to the three product managers. The relations of the salesmen with the product sales managers were very close and in most cases on a strong personal basis. They had been with the company at least several years, were well acquainted with the areas in which they traveled, and knew their customers personally. Each salesman had a list of accounts ranging from 33 to 241 on which he called as often as he believed necessary. The larger accounts in the cities were called on as often as once a week, while some of the accounts in outlying territories were solicited once every 3 months. The sales territories were not geographically distinct, and in many cases overlapping occurred.

During the past several years, the sales expense of the Melrose Paper Company expressed as a percentage of net sales had been steadily rising. The problem of revising the control of sales operations had been raised by the general manager as a consequence of both rising costs and declining margins. At the present time, each of the product sales managers receives a weekly report which shows total sales in his department for the entire company by branches and by salesmen for the week, and cumulative for the year to date. The executives of the company were considering the adoption of the punched card method of sales control to supply the information received from invoices and orders and to provide the possibility of more detailed records by customers.

For many years, the company had maintained customer cards on which were posted monthly purchases by general divisions as well as cumulative purchases of the year to date. Likewise, each month the company provided sales managers with a profit-and-loss statement for his product department. The gross profits of the department were obtained by applying to net sales the standard percentages developed from past experience.

What additional controls are needed for a minimum system?

3. The Ladd and Avery Company manufactured a complete line of leather belting and leather products for industrial uses. The company's products were sold throughout the United States to various types of manufacturing companies that used leather belting for the transmission of power, or leather products as fabricating materials. The products were distributed to these users in two ways: (1) through selected or exclusive dealers, the majority of whom were mill supply dealers; (2) through the company's own salesforce of about 40 men. The salesforce covered the entire United States, but attempted to sell only potential customers who were not being reached by dealers, except in cases where it seemed that the dealer was not obtaining as much business as he should from certain customers.

The 40 salesmen worked out of 17 small branches which were located in manufacturing centers throughout the country. Two or three salesmen made their headquarters at each branch, one of whom was designated as the branch manager. His authority was limited, however, since the main contact between the company and the salesforce was three sales supervisors who traveled from the main office and who were a direct link between the sales manager and the salesmen. These supervisors traveled with the salesmen when their assistance was requested or, more often, when the sales manager felt their assistance was needed.

In November of each year, the salesmen were asked to estimate the potential sales for the coming year in their territory, which, when revised by the company, became quotas for the salesmen. The executives were not satisfied with this method of setting quotas, and so it was little emphasized in the sales control plan.

The sales control system which had been built up was based upon a list of customers and potentials which the salesmen estimated for these customers and for prospective customers. Twice a year, a list

was compiled of customers who had not purchased from the company within a year. The sales manager proposed a daily call report made out for each customer called upon, with his name, address, person interviewed, and remarks. These call records and other information were to be copied on a customer card which contained various items of information about the customer for purposes of reference. The information from the daily call report was entered on the back of the card. Space was provided for entering sales and quotas made by the salesman. A third record the sales manager proposed was the daily separate summary of calls which showed each salesman's daily calls and the cities. The next was a salesman's book of customers, made up from the customer cards, a duplicate of which was maintained at the home office. The last was a quarterly summary of calls, giving sales and potentials for purposes of analysis.

4. A prominent sales manager says: "Of the various kinds of data that come to my desk I find the most effective are those summarizing the happenings of a week or a month. Of course, I see all sorts of daily reports, but they pass over my desk and leave not much of an impression, but we have other reports summing up the events of a week and a month. I study these, so the point I want to make is this: whatever a sales manager has come to his desk he ought to have some sort of periodical data serving as an index of the business. Of course, daily reports are an index but what you can derive from them does not give you a sufficiently detached viewpoint to enable you to interpret them."

Do you agree with the point of view?

5. Is the point of view sound that net profit should first be budgeted and that all adjustments of expense figures during the year should be made when necessary so that the net profit figures would be untouched? Profit, under this plan, is not to be regarded as a residual sum but as a first charge upon business operations.

6. What are the sources of the following records? How and why should they be used in controlling sales? (1) Records relating to customers; (2) prospect records; (3) records of sales classified according to products, territories, classes of buyers; (4) records relating to the performance of salesmen and other members of the salesforce; (5) records dealing with advertising showing expenditures, results; (6) records of orders, deliveries, and shipments; (7) statements of budget estimates; (8) records of personnel.

7. What mechanical aids can be used to reduce the cost of compiling sales data for control purposes? How should a firm go about determining the advisability of adopting one or another of such devices?

8. Is the adoption of a budgetary control system dependent upon the ability of a company to set accurate quotas for salesmen?

B. SALES CONTROL; SALES VOLUME AND MARGINS; CONTROL OF SALES EXPENSE

Information as to the volume of sales is usually collected from the books of account or from the statistical or other records maintained by the company to show sales by salesmen, sales by products, or sales by territories. The data as to sales by products furnish information as to the relative success or failure of particular products to meet the demands of the market or the failure of the organization to present those products adequately to the market. Data as to sales by salesmen furnish basic information as to the progress of the salesmen in achieving the volume goals which may be impliedly or expressly set up.

Analysis of volume figures by salesmen may show whether salesmen are pushing all products in the line adequately. By territories, data may show if a salesman is accomplishing the work equally in different parts of his territory or if there are differences which require explanation.

Sales Volume. Information as to volume of sales is almost universally used in studying sales performance. Its limitations are due primarily to the fact that sales volume is not necessarily closely correlated with net profit. There is no necessary correspondence between the volume of sales and the volume of profit. Nevertheless, other factors remaining equal, volume of sales furnishes one important index to the performance of the company and to the effectiveness of the selling by the company's organization. Volume of sales to customers is considered useful in determining both the relative value of customers and the performance of the organization with relation to particular customers.

Standards concerning the volume of sales are peculiarly difficult to set up. Whether he realizes it or not, every sales manager sets up a standard of sales volume by which he judges his salesmen. That standard may be based upon the average of experience of the company over a period of years; it may be based upon a figure which is set up by the sales manager as constituting a good sales volume; it may be varied by the sales manager according to crude or careful appraisals of the territory in which the salesman is working. Standards for total sales volume of an area or for the company may be based upon past experience, upon more or less accurate information as to the sales of competitors, or upon the accumulated estimates of various members of the organization who are engaged in selling in the field, or by taking a total estimate and assigning portions of it to territories or to products. When estimates of sales are carefully made and embodied in the budgets, they become vital to the sales organization. To secure greatest value from planned sales volumes, standards should be set up so that each member of the organization knows his assignment.

The accuracy of volume standards will, of course, depend upon the amount of experience which a company has on record, upon knowledge of trends of development of sales volume, and upon external conditions which may affect sales volume more or less importantly. For businesses which fluctuate greatly, it may be difficult to set up any standard. Because expenses must be adjusted as far as possible to volume, the volume requirements are sometimes set up as a multiple of sales expense figures.

It must be understood, however, that the volume standard which may be set up is usually not the maximum volume which could be secured. It is usually a figure between maximum and minimum volumes; therefore, a goal which may be reached even though external conditions may compel more intensive effort or permit relaxation of effort as the year progresses. There

are no authoritative volume standards which can be said to represent the desirable or possible sales per salesperson or the sales per branch or unit of an organization. Standards must in each case be set up for the specific enterprise, although in highly competitive industries in which there are a good many units of small size, ideas will gradually develop as to what constitutes good and average performance, against which the performance of specific persons is measured.

Control of Sales Margins. Information as to margins likewise may be an objective in getting information from the books of account. But here again statistical and other information may be required to determine facts of value from the viewpoint of the management. A study of price-cutting by territories may reveal the fact that, as a rule, weak salesmen sell throughout their territories at lower margins than others. A study of margin by product may reveal the fact that some products are sold usually at little or no profit. A study of margins by customers may show that customers who secure extensive price concessions may yield little in terms of net profit, even though important in terms of sales volume.

The maintenance of margin standards is essential to net profits. Extensively developed budgetary control systems will include budgeted margins based both upon budgeted costs and estimated prices. Margin standards are difficult to attain, particularly in periods of declining prices, because of factors outside the control of the enterprise. This does not diminish either the importance of knowing what margins should be secured or the importance of knowing at all times the relation between price quotation and gross margin. It is entirely possible for a firm without such knowledge to cut prices unnecessarily in such a way as to reduce total gross margin much below previous total margins without any corresponding increase in volume of sales. On the other hand, under other circumstances, judicious reduction in price may expand volume of sales to such an extent that the total gross margin from which net profits are secured will be greater than before without a corresponding increase in operating expenses. Much work needs to be done in the study of the relations between margins and prices. It needs only to be pointed out that, if a firm sacrifices its margin continuously, it is doomed to failure.

Satisfactory results of sales operations require a balancing of sales volume, margins, and operating expenses. No one of these can be neglected without adverse results, although it must be obvious to anyone that, normally, there is no possibility of achieving a combination of highest margin, maximum volume of sales, and lowest sales expense. The judicious control and handling of sales expense require both judgment and imagination. Judgment is required to keep expenses in line with plans and with actual or potential results. Imagination is needed to realize that waste arises from insufficient selling

effort for particular purposes, as well as from excessive or incompetent effort.

Expense information may be procured in general terms from the books of account. However, books of account are too frequently not set up so as to furnish the sales manager with the detailed expense information required to measure the effectiveness of particular policies, methods, or men. For instance, expenses of advertising in national publications may be frequently combined in one or very few accounts. The specific cost of a campaign for one product to be set up against results may not be available except by the provision of special statistical records. Many other details of costs of selling operations will be obscured in the books of account as usually kept, so that from the viewpoint of the sales manager the figures are not useful without analysis and study to relate portions of the expense to specific activities and results. Wholesale establishments, to a much greater extent than manufacturing establishments, find it possible to standardize and set up accounting figures which permit comparison with the standards of other enterprises. The wide variety of functions and methods of manufacturers, even of those in the same line, tends to minimize the possibility of effective comparisons between companies and to increase the need for careful establishment of standards of performance of each company.

Standards need to be set up for sales expenses so that the sales manager may judge his operations and his organization not only from the viewpoint of volume and margin results but with relation to the costs of securing those results. Firms vary widely in the care with which standards are set up. Some firms utilize no formal standards, the guess of executives or the experience of the sales manager serving as a more or less dependable guide as to whether particular expenses are unduly high or satisfactorily low. More useful as a basis of standards are common figures based upon the experience of similar companies, particularly if such common figures have been compiled and interpreted by competent persons. Common figures which are reasonably dependable are available for a number of different wholesale trades—grocery, hardware, drug, plumbing, wallpaper. Retailers are more fortunate in the availability of common figures which will furnish a guide for the judgment of operating expense ratios. For manufacturers, however, we are compelled to depend upon standards based upon careful study of past experience, coupled with studies of possible performance from an expense viewpoint. These constructed standards may be, and frequently are, embodied in sales expense budgets. It is interesting to note that, during the recent depression period, the stress of necessity placed standards of expense much below those which would have been considered possible in the period prior to 1929. This change was brought about primarily through the necessity of testing the essential nature of particular types of expenditures and ruthlessly eliminating nonessentials.

Sales management has not profited so fully as has production management from the use of unit costs as a basis for direction and control. Yet beginnings have been made. So-called distribution accounting, which is a combination of statistics and accounting data with reference to costs, has been the subject of a considerable amount of study by the Department of Commerce and by a few companies and individuals. However, few, if any, of the problems of distribution cost accounting have been solved. The possibility that cost accounting data will in the future furnish as useful a basis for the direction of sales activities as they have furnished for manufacturing still exists, but the progress made during the forties was by no means remarkable. We are far from the point where the relation between distribution cost accounting data and ordinary accounting records can be determined. It is probable that we can never fully satisfy those who desire absolute accuracy in the allocation of accounting costs to marketing operations. Nevertheless, it is not impossible that distribution cost accounting may perform substantial services for operating officials of marketing departments and may contribute in important measure to lowering the cost of distribution.

96. GLENCOE CORPORATION. Control of Selling Expenses

Prior to the fall of 1945, the Glencoe Corporation, a large manufacturer of enameling materials and equipment, had operated without any system of selling expense control. The lack of detailed expense tabulation, either for branch operations or by individual customer, had continually kept executives "in the dark" on this phase of sales operations. In October, 1945, however, the general sales manager succeeded in setting up a procedure which he believed would enable him to judge the value of various accounts in the light of the amount of selling expense they absorbed. The procedure, incorporated in the firm's method of sales volume control, included an expense breakdown by product classifications, individual customers, and sales territories.

The Glencoe Corporation manufactured and sold a complete line of ceramic supplies under five product divisions: (1) the enamel and enamel supplies division contained vitreous porcelain enamel (frit), the substance used in enameling stoves, refrigerators, and many other household appliances; (2) the oxide division handled oxides and colors for the enameling process; (3) synthetic finishes included paints and finishes used on such items as kitchen cabinets; (4) the supply division handled materials incidental to enameling; and (5) cleaner, used in porcelain enameling. In addition, an engineering division was engaged in the design, construction, and equipping of enameling plants, brick, pottery, or tile kilns for firms expanding or about to enter the business. Glencoe built the plants, staffed them with personnel, trained them, and then turned the operation of the finished job over to the customer. Although the firm conducted extensive foreign operations in

Europe, Canada, and South America, the principal portion of its sales volume was accounted for by the United States.

The domestic distribution organization was divided into eight territories, each under the supervision of a territory manager who reported to the vice president in charge of sales and research. Working under the territory managers was a corps of highly trained sales engineers, generally college graduates holding a degree in chemical or ceramic engineering. Research in the industry introduced improvements and new products at such a rate that the company was constantly under compulsion to retrain engineers by bringing them from the field into the main plant for "refresher" courses; in this manner, the men were kept highly specialized in their respective fields. During these retraining courses, sales engineers were not only given technical training but were also coached in various phases of sales management such as market analysis and sales control. Although the sales engineering force in the field contained only 30 men, it was often augmented by members of the home office staff; the firm's research laboratory could release as many as 20 engineers, thus expanding the salesforce during periods of intense business activity. There were 18 regular sales engineers in the frit division, 9 in the liquid plastics division, and 3 in the pottery division. These men were paid a salary plus a commission and expenses and averaged between $6,000 and $7,000 a year.

One of the principal reasons for the company's initiating an expense control procedure was to provide data for the analysis of two of its largest selling costs: service and entertainment. Since Glencoe guaranteed its frit, the company often had to send several service men into a plant to help. Consequently, some sort of expense control was needed to check on the value of accounts, for Glencoe might provide service when the amount of business did not warrant it. The sales manager's purpose in wanting to control entertainment expense was not only to help reduce the ratio of expenses to total sales volume, but also to improve the working efficiency of the sales engineers. He explained that a high entertainment expense indicated too much time was being spent after hours and the men could not possibly be in the proper condition in the morning to do their best work. Furthermore, the company needed a yardstick with which to measure the men in the field; such a system of control would give executives a comparison between the performance of different sales territories.

The procedure used for control of the sales volume began with the setting of a sales quota for the ensuing year. The sales manager obtained figures from the Department of Commerce on the estimated production of items using various company products. In the case of enamel frit, he obtained estimates on the number of stoves, refrigerators, washing machines, heaters, etc., to be manufactured. To this he added the probable requirements of new

plants going into production, relying mainly on information obtained from the salesforce for these data. He then took the percentage of the total figure which the company expected to meet for the coming year, this generally representing a position relative to the total market which Glencoe had maintained in the past. With respect to enamel frit, this percentage fluctuated between 55% to 60% of the market. The sales manager checked this estimate against reports on customers' requirements which were recorded by sales engineers as they made their calls. Since the firm's accounts numbered only 250, this method was entirely feasible. When similar information was collected on all products, the data were broken down by territory, product group, and customer. Exhibit 1 shows a comparison of 1941 actual frit sales with the 1946 objective set for each customer in the Detroit area, together with an estimated "total available" representing each customer's total requirements. Exhibit 2 is the sales objective sheet for all products for the month of December, 1946, showing actual current month and year-to-date figures. Included is a figure for the percentage of objective obtained as of the end of the month which gave the sales manager a check on sales progress.[1]

Exhibit 1. GLENCOE CORPORATION. 1946 Sales Objectives for Enamel Frit. Detroit Area

Company	1941 sales, lb.	1946 objectives	1946 estimated total available
A Stove Company	462,000	600,000	600,000
B Porcelain Company	2,600	50,000	200,000
C Corporation	200	500,000	2,000,000*
D Company	56,000		
E Enamel Works			
F Ohio Stove, Inc.	200		
G Stovemaster	110,400	250,000	300,000
H Company	37,000	500,000	1,000,000
I Stove	180,000	1,000,000	2,000,000
J Company	2,999,000	3,500,000	4,000,000
K Corporation			
L Company	1,232,000	750,000	1,500,000
M Company			
N Company		50,000	100,000
O Fixture Company	76,000	100,000	300,000
P Vitreous Corporation	832,000	900,000	1,000,000
Total	5,987,400	8,200,000	13,000,000

* To be entered at a later date.

[1] On the sales objective list, customers included were established customers in that Glencoe was their sole supplier and knew exactly what annual frit requirements would be. This list did not include estimates of sales to potential accounts; it was thus a sales objective for customers and not a territory potential.

Exhibit 2. GLENCOE CORPORATION. Detroit Area. Sales Objectives, December, 1946

Product	1946 objective	% of objective *	Current month		Cumulative	
			Pounds	Value	Pounds	Value
Enamel frit	8,200,000 lb.	49	602,500	$48,342.33	4,019,190	$308,635.38
Liquid plastics ..	$15,000	160	....	2,440.58		24,209.07
Oxides:						
Color oxides.	18,000	32	750	525.00	8,477	5,841.36
Pottery . .	6,000	..	16	33.65	31	49.49
Miscellaneous (plastics, granules, etc.)	3,000	...	10	11.10	66	133.30
Supplies.	72,000	69	.. .	4,867.50	... . .	49,859.42
Cleaner.. ..	30,000	3.6	2,000	180.40	12,000	1,095.60

* The percentage of objective is based on the cumulative figure.

Expense control began with the tabulation by territory managers of selling expenses by product, by customer, and by expense classification (Exhibit 3). The latter was broken down into three categories: the salary column contained that portion of a sales engineer's salary which could be allocated to a customer's service call, entertainment constituted "after hours" expenses, while the "other expense" column collected remaining allocable expenses. Once these data had been forwarded to the home office, the total of each type as well as all expenses was computed as a percentage of the current monthly figures shown in Exhibit 2; expenses were thus controlled on the basis of these percentage figures.

Selling expense data, however, were also interpreted in the light of other department reports. As an additional check on sales engineers' progress with various accounts, the sales manager kept a Kardex file giving a detailed explanation of the number of calls, sales, etc., made to each customer. By evaluating these records in terms of the amount of money being spent to develop an account, he believed that the firm had effective control over sales expenses. Reports sent to the territory manager from the home office were limited to a rating of the different territories according to their expense performance for the month. This control procedure, while very brief, immediately proved effective for the sales engineers showed more interest in expenses once they realized that the home office was keeping track of them. The expense report to the territory also injected a certain amount of competition into the selling job which encouraged each territory to outdo the others in attaining a low expense percentage. The sales manager did not feel that it was advisable to go into greater detail in such reports, giving territory managers and sales engineers a complete breakdown of competitive stand-

Exhibit 3. GLENCOE CORPORATION. Classification of Selling Expenses by Customer and Type of Expense, December, 1946. Detroit Area

	Salary	Entertainment	Other expense	Total	Year to date
Enamel:					
A Stove Company	$ 62.50	$ 82.20	$ 16.80	$ 161.50	$ 1,087.87
B Porcelain Company	3.13		0.49	3.62	142.24
C Corporation	34.38	39.35	7.50	81.23	227.81
D Company	6.25		1.30	7.55	21.80
E Manufacturing Company					15.80
F Ohio Stove, Inc.	3.13		0.66	3.79	224.69
G Porcelain Enamel Corp.	3.13		0.49	3.62	66.77
H Motor Company					60.90
G Stovemaster	125.00	22.38	23.68	171.06	2,292.34
I Stamping & Mfg. Company					14.05
H Company	287.50	9.25	100.77	397.52	3,194.90
JY Refrigerator Company					84.12
K International					63.60
I Stove	93.75	4.25	78.56	176.56	4,182.22
JZ Corporation					15.26
J Company	125.00	23.00	34.71	182.71	2,256.00
Q Electric					41.00
K Corporation					447.48
L Company	475.00	97.00	156.09	728.09	3,378.13
R Motor Car Company	6.25		1.30	7.55	31.46
S Motors					53.80
T Appliance Company					13.75
N Company					118.67
M Company	12.50		9.07	21.57	126.89
U Manufacturing Company					71.30
O Fixture Company	56.25	16.63	35.45	108.33	667.31
P Vitreous Corporation	75.00	4.75	30.50	110.25	1,055.39
V Porcelain					11.09
W Manufacturing Company					43.37
X Manufacturing Company					10.13
Y Stove					41.50
Total	$1,368.77	$297.81	$497.37	$2,163.95	$20,060.34
% of expense Sales volume	2.83	0.62	1.03	4.48	
Liquid plastics:					
Z Steel Products Company	$ 25.00	$ 1.50	$ 10.25	$ 36.75	$ 36.75
ABC Mfg. Company	46.69		31.45	78.14	113.89
I Stove	56.25		11.45	67.70	97.49
JZ Corporation	3.75		4.25	8.00	8.00
XYZ Mfg. Company	4.00		1.50	5.50	5.50
K Corporation	98.75	48.75		147.50	154.55
AX Corporation					101.70
L Company					930.18
XY Prefabrication Co.					8.00
N Company					16.00
XZ Products Company	10.75		6.80	17.55	22.95
O Fixture Company					16.25
BX Mfg. Corporation	25.00	15.00	14.10	54.10	75.50
BY Range Company					2.50
Total	$ 270.19	$ 65.25	$ 79.80	$ 415.24	$ 1,589.26

Exhibit 3. GLENCOE CORPORATION. Classification of Selling Expenses by Customer and Type of Expense, December, 1946. Detroit Area (*Continued*)

	Salary	Entertainment	Other expense	Total	Year to date
Cleaner:					
A Stove Company	$ 25.00	$ 8.50	$ 12.00	$ 45.50	$ 76.97
B Porcelain Company					20.65
F Ohio Stove, Inc.					357.81
I Stove	45.00	15.00	18.00	60.00	130.17
V Porcelain					31.87
G Stovemaster					11.40
H Company					85.60
J Company					68.20
BZ Company					39.62
Total	$ 70.00	$ 23.50	$ 30.00	$ 105.50	$ 822.29
Supplies:					
A Stove Company	$ 6.25		$ 4.55	$ 10.80	$ 83.11
B Porcelain Company	3.13		0.50	3.63	61.13
C Corporation	28.13	$ 39.65	6.20	73.98	156.50
F Ohio Stove Company	3.13		0.66	3.79	63.20
G Porcelain Enamel Corp.	3.13		0.50	3.63	45.47
G Stovemaster	25.00	8.13	5.87	39.00	473.23
H Company	12.50		6.97	19.47	429.08
I Stove	43.75	4.25	23.51	71.51	1,008.00
JZ Corporation					6.20
L Company					97.97
M Company	12.50		9.07	21.57	69.69
N Company					44.00
O Fixture Company	56.25	17.63	35.44	109.32	246.51
V Porcelain					10.99
Total	$ 193.77	$ 69.66	$ 93.27	$ 356.70	$ 2,796.18
% of expense—Sales expense	3.98	1.43	1.92	7.33	
Oxide:					
A Stove Company					$ 14.34
B Porcelain Company					9.06
AA Plastic Company					12.27
BB Spark Plug Company					9.06
CC Chemical Company					12.28
G Stovemaster					9.06
DD Company					9.69
XX Pottery Corporation					12.33
I Stove					12.34
Z Pottery Company					12.27
X Pottery					9.06
M Company					12.28
N Company					12.34
P Vitreous Corporation	$ 12.50		$ 13.20	$ 25.70	110.70
V Porcelain					9.06
Total	$ 12.50		$ 13.20	$ 25.70	$ 266.14
% of expense—Sales volume	2.24		2.37	4.61	

ings on each expense classification. Other sales information currently distributed, although necessary, was considered quite burdensome and executives believed that additional detail would not be used by the fieldmen.

Supplementing the expense tabulation forwarded by the territory manager to the home office was a monthly call report which enabled the sales manager to check on the amount of the time being required to develop and service the various accounts. By comparing the amount of time spent calling on each customer with the resulting expense, he could tell whether the costs for a given amount of time were out of line. The Detroit area call sheet for the month of December, 1946, is given in Exhibit 4.

Exhibit 4. GLENCOE CORPORATION. Sales Calls, December, 1946. Detroit Area

	Salesmen		
	Shaw	Sullivan	Lawrence
Enamel:			
A Stove Co. (Jackson 2) *.	9, 25, 26, 27		
B Porcelain Company	14		
C Corporation (Jackson 30)	8, 14		
D Company	14		
E Enamel Works		21	
F Ohio Stove, Inc..	8		
G Stovemaster	7, 15, 21, 22, 23, 24, 25, 28, 30, 31		
H Company	2, 3, 17	4, 7, 8, 9, 10, 11, 19, 23	
I Stove (Davis 2, Jackson 2, 29)	2, 4, 10, 18, 29		
J Company		3, 19, 23, 24, 25, 27	
L Company		22	30
R Motor Car Company	8		
M Company	16		
O Fixture Company (McFeatters 1, 3, 4)	1, 3, 4, 11		
P Vitreous Corp. (Borne 8)		2, 25	
Total calls †	33	18	1
Miscellaneous:			
Mr. R. G. Duncan	8		
Lorain Engraving	9		
Botsford Body Company (Jackson T31)			
Secrist Radiator Company	T8		

Liquid Plastics Division:
Lawrence made 2 calls in this territory.
Lewis made 1 call in this territory.
Shaw received 1T call in this territory.
Oxide Division:
One call was made by Donlevy in this territory.

* Calls made by the sales manager (Jackson) or other representatives of the home office.
† No calls made on the following: K Corporation, N Company, I Stamping & Manufacturing Company, and V Porcelain.

While it was true that this method provided only a "post-mortem" check on each month's operations, the sales manager did not feel that a sales budget which might be compared with day-to-day expenses would benefit the control procedure. The principal difficulty connected with setting up a budget was found in the irregular circumstances occurring in the movement of sales expenses. Glencoe was often required to provide a good deal of service to a customer who was having difficulty with enameling processes; consequently, fluctuations in this type of expense could not be forecast and comparisons would be valueless. However, the sales manager believed that after the system had been in operation for a year it would be more beneficial, for in future years he would have the advantage of comparing previous expense percentages with current percentages, making adjustment for changes in volume from year to year.

97. WYMAN RUBBER COMPANY. Compensation and Control of Branch Managers

The Wyman Rubber Company was engaged principally in the manufacture and distribution of rubber footwear and in the course of a half century had developed from a small local company to a national enterprise with sales volume in excess of $15,000,000. The products were distributed to retailers and wholesalers through 10 branch sales offices and warehouses. A number of years ago when the company's accounting system had been simplified, each branch manager had been made responsible for expenses incurred by his branch. The vice president in charge of sales was not fully satisfied with existing methods of remuneration and controlling branch managers. He had suggested that the point system of payment be devised in conjunction with a flexible budget arrangement which would indicate the cooperation and worth of each branch manager and provide satisfactory basis for direction of branch operation.

Branch managers granted credit, made collections, controlled branch inventories and expenses, employed and discharged salesmen, and were responsible to the central office for the success of the branch. They sent to the central office weekly reports and records of sales and inventories. The salesmen were responsible to the branch manager of the territory for the sales in their territories. Sales quotas were employed by the company for determining salesmen's compensation. Each branch manager estimated the sales for the branch; his estimate, which was a compilation of the estimates by salesmen in his territory, became the actual sales quota. To prepare the sales estimate, each territory was analyzed to determine size, the number of towns, the number of retailers in each town, the "cents sales per capita," the percentage of all the towns in sales territories in which retailers were located, and the ratio of the retailers who purchased products from the Wyman Rubber Company to the total number of retailers who sold rubber footwear.

Branch managers were paid a straight salary. No definite quotas were used to determine the amount they should receive. If the vice president in charge of sales became acquainted with an individual whom he desired to have as a branch manager, he offered him a salary sufficient to induce him to accept the position. The branch managers frequently did not secure the estimated sales volume for their territories, and often permitted expenses to exceed the amount established by the annual budget. The increase in the sales from several branches frequently was not proportional to the increase in accounts receivable and inventories. It was believed that these difficulties existed because compensation was not based on the attainment of standards. The following system for remunerating branch managers was proposed by a firm of industrial engineers.

Under the point system, branch managers were to receive a base or yearly fixed salary which approximated salaries paid for similar performance in the rubber footwear industry. In order to determine the base salary, factors such as size of territory, number of accounts, sales volume, and the branch manager's ability and experience were considered. In order to measure these results, the factors over which a branch manager had control were classified into four groups: sales, expenses, receivables, and inventories. It was necessary to establish standards by which these factors could be measured. Since accurate fixed standards could not be determined, maximum and minimum standards were established; these permitted the computation of percentages which could be applied to any sales volume between the maximum and minimum standards.

First, it was necessary to estimate maximum and minimum sales. Maximum sales were the total sales of the preceding year plus the possibilities of additional sales estimated on "cents per capita" basis.[1] For example, if the per capita sales of the Wyman Rubber Company in one territory were 3 cents and the company's per capita sales for the entire United States were 7½ cents, manifestly the sales in that territory were too low; the per capita sales for that branch the following year might be fixed at 5 or 6 cents. Minimum sales were those which the company was confident would be obtained; this estimate was based on sales of the preceding year, adjusted for current conditions.

After the maximum and minimum sales volume had been estimated for each branch, the maximum and minimum expense by accounts for the maximum and minimum sales volume also were established.

The standard established for accounts receivable depended on credit terms. The amount of interest charged by the home office for carrying these open

[1] The amount of sales per capita for the rubber footwear industry in the United States in 1941 was 38 cents; the sales per capita of the Wyman Rubber Company were 7½ cents in the same year. The former figure was secured by dividing the total sales for the industry by the total population of the United States and the latter, by dividing the total sales of the Wyman Rubber Company by the same total population figure.

Exhibit 1. WYMAN RUBBER COMPANY. Example of Operating Statement

Particulars	Fixed expense		Variable expense		Total fixed and variable expense		
	Dollars	%	Dollars	%	Dollars	%	
Trade discounts.....	.....	.....	75,000	10.000	75,000	10.00	
Cost of merchandise	.....	.....	412,500	55.000	412,500	55.00	
Expense:							
Branch.....	33,750	4.50	84,368	11.241	118,058	15.74	
Central office.....	78,750	10.50	65,692	8.759	144,442	19.25	
Overhead.....	.....	.....	.....	.....	.....	.....	
Totals.....	112,500	15.00	637,500	85.000	750,000	100.00	
Total sales.....	.....	.....	. ....	. . .	... . .	.....	$750,000
Total cost.....	.....	.....	.....	.. ..	.....	.....	750,000
Net profit.....	.....	.....	.....	.....	.....	.....	None

accounts was prorated to the different branches according to the ratio of the average monthly sales to total sales. If credit terms were 2% 10-days, net 60-days, it was considered almost impossible to turn receivables more than once each two and one-half months. The standard established for inventories at the branches was based on four stock turns annually. The quantity of merchandise in transportation from the factory to the branch was considered as stock.

Because of the different ways in which expenses were affected by sales, the establishment of a standard by which to judge the branch manager's control of expenses was complicated. According to the accounting system in use, expenses were divided into selling, discounts, and branch and central office overhead. Selling was composed principally of salaries; discounts included allowances, cash discounts, and special discounts to meet competition; branch and central office overhead represented all the remaining expenses. Each one of these groups was subdivided into employment, composed of wages and salaries; service, composed of rent, insurance, light, heat, and similar items; and supplies such as paper, twine, and sundries.

From expense figures the amount of fixed and the amount of variable expense were obtained. The total "fixed expense" for each branch included the fixed expense of the branch, plus a proportional share of the overhead fixed expense at the central office, based on the ratio of sales of this branch to total sales. The total variable expense was composed of trade discounts, variable branch expenses, and a portion of the variable expense of the central office overhead.

The following example illustrates the method of establishing expense

standards. In order to secure the percentage of variable expense and the amount of fixed expense in dollars, the following formulas were used.

SALES EXPENSE

	Minimum	Maximum
Sales volume	$600,000	$1,000,000
Expense estimated	33,240	47,700

$$\text{Percentage variable} = \frac{\text{maximum expense minus minimum expense}}{\text{maximum sales minus minimum sales}}$$

$$\text{or } \frac{\$47{,}700 - \$33{,}240}{\$1{,}000{,}000 - \$600{,}000} = 3.615\% \text{ variable expense}$$

Fixed expense = minimum expense minus (minimum sales × percentage variable), or $33,240 − ($600,000 × 3.615%) = $11,550 fixed expense.

By securing the fixed expense and the percentage variable, the establishment of a standard expense for any sales volume between the maximum and minimum sales volume became possible. If actual sales had been $750,000, the correct amount of the standard sales expense would have been computed as follows:

$$\$750{,}000 \times 3.615\% = \$27{,}112.50$$

$$\$11{,}550 + \$27{,}112.50 = \$38{,}662.50, \text{ standard sales expense for branch}$$

This method permitted the estimation of the volume of sales necessary to meet any item of expense and the contribution to fixed expense and profit.

If the actual expense was $42,000, the sales to justify such an expenditure were determined by subtracting the fixed expense, $11,550, from the actual expense, $42,000, and by dividing the remainder by 3.615%. The sales, therefore, to justify an expenditure of $42,000 should have been $842,300.

The percentage contribution to fixed expense and profit was estimated as follows: The total variable percentage was secured by adding all variable percentages, which were discounts, cost of merchandise, and expenses. The difference between this total and 100% equaled the percentage of contribution. If 85% was the total percentage variable, then 15% or 15 cents of each dollar of sales was the contribution to fixed expense and profit.

The volume of sales required to meet total fixed expenses was secured by dividing the total fixed expenses by the amount of contributions. The contribution in the example used previously was 15 cents; the fixed expense was $112,500. Sales necessary to meet total fixed expense would be $750,000. If sales, however, had been $850,000, the profit would have been

$$\$0.15 \times (\$850{,}000 - \$750{,}000) = \$15{,}000$$

In order to establish a unit of remuneration for branch managers, it was assumed that each dollar of sales above those necessary to equal expenses contributed 15 cents to the company's profit. The branch manager was to receive 5% of the income which resulted when his branch exceeded the standards set. The "point" selected as the unit on which the branch manager was to be remunerated represented approximately $5. For every $5,000 addition to sales above the point at which the company operated without loss, profits were $750. Five per cent of $750 was $37.50, which, divided by the $5 value of "point," made 7 + "points." For each $5,000 increase in sales, therefore, each branch manager was to be credited with seven points.

If accounts receivable or inventories were lowered $1,000 below the standard average, the interest charges were reduced 6%, or on $1,000, $60; for a $5,000 reduction, therefore, the company saved $300. Five per cent of $300 was $15, or the branch manager theoretically should be credited at the rate of three points for every reduction of $5,000 in accounts receivable and inventory. In actual practice, however, this was not followed. A branch manager was given one point for every reduction of $1,000 below the standard for accounts receivable; this adjustment was made to insure the collection of accounts. One point was allowed for every reduction of $5,000 below the standard for inventory. This was intended to encourage branch managers to carry complete stocks.[2]

[2] Computation of receivable points.

$$\text{Standard} \frac{\text{sales}}{\text{number of months to date}} \times 2\tfrac{1}{2} = \frac{\$250{,}000}{3} \times 2\tfrac{1}{2} = \$208{,}000$$

Actual sales:

January	$115,000
February	75,000
March	60,000
To date	$250,000

	Standard receivables	Actual receivables	Average actual
January	$287,500	$200,000	$200,000
February	237,500	170,000	185,000
March	208,000	140,000	170,000

Standard average	$208,000
Actual average	170,000
Gain	$ 38,000
1 point for each $1,000	38 points

COMPUTATION OF INVENTORY POINTS

$$\text{Standard} \frac{\text{sales}}{\text{number of months to date}} \times 3 = \frac{\$250{,}000}{3} \times 3 = \$250{,}000$$

[Continued on p. 839.

If expenses were reduced $1,000, the company saved that amount. For every $1,000 saved, therefore, the branch manager was credited with 10 points.

These standards, it was believed, made the maximum additional remuneration which a branch manager could secure about 50% of the base salary, the average that would probably be obtained being 20% or 25%.

If a manager failed to reach the quotas, he was to be debited $5 for each minus point. If a situation occurred when a manager had more minus points than plus points, each minus point was to be considered $2.50, and the sum of these was to be deducted from the manager's base salary for the following year.

The point system made it possible for branch managers to determine when accounts receivable could be increased so as to improve sales volume. The loss in points from slowly turning accounts receivable could be subtracted from points gained by additional sales. It was admitted, however, that the success of the plan depended on the establishment of the proper standards. Although the point system was complicated, this was not considered a serious objection because all computations were to be made in the central office and the plan was to be explained carefully.

Should the plan outlined be adopted?

98. PALFREY COMPANY (B). Analysis of Sales District

The Palfrey Company, located in Cleveland, Ohio, employed 200 salesmen to sell several common household products to retailers and wholesalers throughout the United States. The salesforce was divided into four regional divisions and 20 districts (see Exhibit 1). Sales were made through some 40,000 to 50,000 retail outlets of which 8,000, representing 85% of the company's business, were regarded as key accounts. Early in 1944, a marketing

Footnote continued from previous page.]

Actual sales:

January	$115,000
February	75,000
March	60,000
To date	$250,000

	Standard inventory	Actual inventory	Average actual
January	$445,000	$300,000	$300,000
February	285,000	220,000	260,000
March	250,000	170,000	230,000

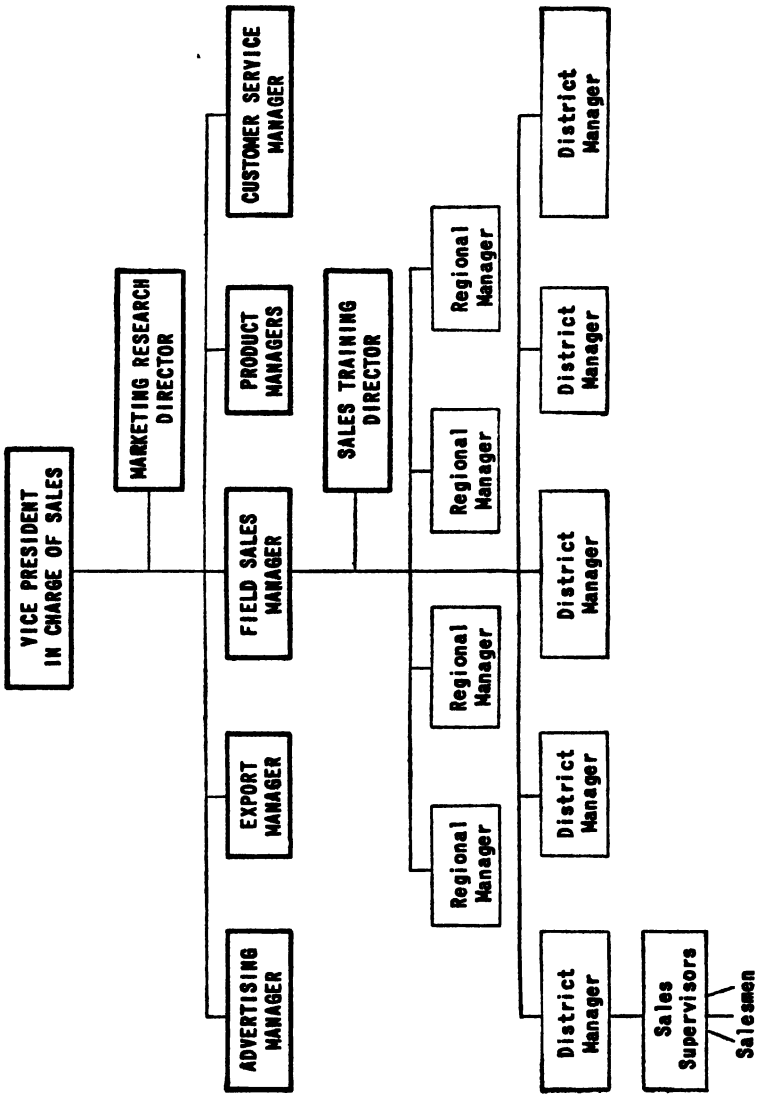
Standard average	$250,000
Actual average	230,000
Gain	$ 20,000
1 point for each $5,000	4 points

research department had been established, and one of the first tasks undertaken by the new marketing research director was the construction of a scale for measurement of sales performance in the different districts. A result of his first analysis, using the new scale, was the discovery that the Boston district was considerably below par. He therefore made a more detailed analysis in an endeavor to discover the reasons for the poor sales performance.

The first step in the establishment of the sales effectiveness scale was to decide upon control units as the basic units of the control system. In the opinion of the research director, these units must be as small and as self-contained as possible; small, so that there would be no risk of obscuring an important weakness by combining a strong area with a weak one; self-contained, so that analyses would be accurate, since sales and sales expenses were charged to the marketing unit to which they really belonged. As a starting point, the 184 wholesale grocery trading areas set up by the Department of Commerce were selected as company control units. All territories and district boundaries were then revised so that every sales unit consisted of one or more of the control units. Sales volume figures were broken down by control units; basic data, such as population, retail sales, and company per capita sales, were obtained for various control units. The next step was the selection of a marketing index which would indicate relative potential sales in various districts. An index of total retail sales was used originally, since the products of the Palfrey Company were common household products for which there was a universal demand. Later, consumer research revealed certain sectional variations in the consumption rate of different company products, and this market index was adjusted accordingly. From the market index, the marketing research director was able to determine the proportion of the company's sales which should come from any district. Thus, if a certain district produced 10% of total retail sales of the United States, 10% of the Palfrey Company's sales should be obtained from that district, and 10% of the company's actual or projected sales represented the district "par." The actual sales of the company in the district were divided by par for the districts to give an index of sales effectiveness. If, for example, par in a certain district was $100,000 based on the market index and sales amounted to only $80,000, the district's effectiveness index would be 80.

To make the index a meaningful concept to the sales organization, the company adopted simple familiar symbols: red, yellow, and green traffic lights. Each area with sales effectiveness above 100, that is, with sales above the level of the company as a whole, was in the green. If the territory's performance was between 85 and 100, the area was in the amber or caution zone. If the effectiveness index was below 85, then the area was in the danger zone. Such an area was painted red on the maps which went to the salesmen and also to each of the top management group. Effectiveness indices were obtained for over-all sales and for each product.

Exhibit 1. PALFREY COMPANY. Sales Organization



As a result of its first analysis, the marketing research department discovered that the company's Boston sales district had an effectiveness index of 68.2. To discover whether this poor showing was the result of war influences or a long-standing weakness, a similar analysis was made of 1939 sales. This analysis revealed that Boston had been at about par in 1939, and that its problem was a wartime consequence: either it was a result of failure to allocate a sufficient amount of merchandise to the district or was due to competitive effort.

Having tentatively ascertained the cause of the Boston weakness as failure to allocate certain merchandise, the marketing research director made a detailed study to discover the effect of the weakness on the company's competitive situation. A knowledge of where the company was weak and where it was strong would be exceedingly helpful to the district's sales personnel in the effective placement of the merchandise provided.

The Boston district embraced most of New England, containing five of the six New England states in their entirety plus two of Connecticut's eight counties. On the basis of potential volume, this district represented 6.16% of Palfrey's total domestic market. While only four of the 20 districts had larger potential volume, in 1944, the Boston district's effectiveness index was the lowest of all districts, 68.2, and actual volume represented 4.2% of the United States total. This low performance level extended to all 12 of the Boston marketing areas, as shown in Exhibit 2. Ten districts had a higher volume for that year.

The Boston district was divided into 12 marketing areas with the metropolitan market representing nearly half (43.2%) of the potential volume of

Exhibit 2. PALFREY COMPANY

Marketing area	% of total district potential	1944 sales effectiveness
Boston district	100.0	68.2
Boston, Mass.	43.2	76.3
Providence, R.I.	12.4	86.7
Portland, Maine	8.9	45.1
Worcester, Mass.	8.5	63.1
Springfield, Mass.	7.0	85.3
Keene-Manchester, N.H.	4.1	56.1
Bangor, Maine	3.5	40.6
Burlington, Vt.	3.2	30.4
New London, Conn.	2.7	59.3
Laconia-Franklin, N.H.	2.5	15.0
Pittsfield, Mass.	2.3	71.3
Rutland, Vt.	1.7	42.6

the Boston district. Exhibit 3 shows vital statistics for the Boston district, and Exhibit 4 shows sales and effectiveness indices for various products.

Exhibit 3. PALFREY COMPANY. Vital Statistics of Boston District

Area No.	Area	11/1/43 population	% of district	1944 total retail sales	% of district
	Boston district total.....	6,522,871	100.0	$3,886,000,000	100.0
7	Boston, Mass.....	3,064,680	47.0	1,770,000,000	45.5
11	Providence, R.I...	694,616	10.6	495,000,000	12.7
2	Portland, Maine.. ...	557,199	8.6	347,000,000	9.0
8	Worcester, Mass... ...	526,304	8.1	330,000,000	8.5
9	Springfield, Mass.... ..	440,464	6.8	269,000,000	6.9
4	Keene-Manchester, N.H. ..	281,078	4.3	150,000,000	3.9
1	Bangor, Maine.	256,334	3.9	122,000,000	3.1
5	Burlington, Vt.....	195,308	3.0	109,000,000	2.8
3	Laconia-Franklin, N.H.. ..	166,182	2.5	82,000,000	2.2
10	Pittsfield, Mass..	136,557	2.1	74,000,000	1.9
12	New London, Conn..	129,384	2.0	90,000,000	2.3
6	Rutland, Vt.	74,765	1.1	48,000,000	1.2

In the opinion of the marketing research director, the following facts made the decline in the level of Boston's sales effectiveness less alarming:

1. The district manager in Boston in 1944 was Mr. E. S. George.
2. He was transferred to Boston in September, 1941, relieving Mr. Hinds who, in 1944, was the company's Chicago district manager. The date of transfer was significant for two reasons: (1) Mr. George arrived when the 1941 selling season was nearly over, hence it would be unfair to charge him with the reason for the 1941 decline. (2) He arrived in Boston 3 months before Pearl Harbor.
3. Shortly after Mr. George's arrival, his salesforce was reduced by the draft and other factors, and he was ordered to concentrate his selling efforts on the sale of products contributing to the war effort. Such sales amounted to 31% of the Boston district total in 1943 compared with the company's national total of 24% for this type of business.
4. Through May, 1945, Boston had sold 82% of its six-month allocations of merchandise despite the fact that Boston's allocations were increased proportionately more than any other district.
5. By the sale of the first half 1945 allocations, Boston was expected to boost its level of sales effectiveness for the first half of 1945 from 68 in 1944 to 83. Product D's performance would be up from 30 in 1944 to 55.9. Product A's performance from 83.2 to 97.4. These facts provided a strong indication that even with shortages of man power, Mr. George's Boston operation was geared up to pull its weight in the immediate future.

Exhibit 4. PALFREY COMPANY. Summary of Recent Sales Trends. Boston District

	Sales					
	D	C	A	E	B	5-product total
1939	22,995.14	15,309.91	185,500.19	3,850.25	19,351.71	247,037.20
1940	20,836.34	13,323.80	187,729.18	3,255.63	22,305.12	247,450.07
1941	26,288.62	15,395.22	210,653.68	6,921.31	34,362.26	293,621.09
1942	22,336.28	14,412.91	187,694.99	5,819.40	14,103.84	244,367.42
1943	20,464.96	14,205.81	171,057.23	4,119.44	10,956.08	220,803.52
1944	25,537.19	16,346.64	208,981.59	3,869.46	11,376.49	266,111.37
	Sales Effectiveness					
1939	36.6	66.3	127.8	90.8	98.4	97.3
1940	32.7	55.7	112.4	71.4	90.5	87.2
1941	34.3	57.5	102.1	108.2	81.2	81.9
1942	28.0	50.0.	93.7	101.2	55.2	71.8
1943	28.3	44.4	83.4	106.8	50.5	65.9
1944	30.3	39.8	83.2	91.0	48.4	68.2

In an analysis of the company's sales for the whole country, breakdown had shown that grocery customers were by far the most important "class of trade" to the Palfrey Company, and further, that grocery outlets had increased in relative importance to the company chiefly during the past few years. The next step in the marketing research department's study of the Boston district, therefore, was to make an extensive analysis of the class-of-trade pattern. From the analysis they hoped to secure answers which would be helpful in planning constructive measures based on answers to questions such as the following:

> What is the Boston pattern of strength and weakness through different classes of trade? That is, is the company strong or weak through grocery channels in Boston; through other specific types of stores?
>
> In the case of a marked weakness, what portion of any individual class of trade should receive attention first? Thus in the case of a grocery weakness, is that weakness with chains, wholesalers, retailers, or all three?
>
> Is the pattern the same on all products? If not, what are the significant differences by products?

In addition to the simple percentage-division figures on all classes of trade, the marketing research director had, as a precautionary measure, developed for the grocery trade a "grocery effectiveness index" which indicated whether or not actual dollar volume of sales through grocery channels was higher or lower than it should be. The function of this device was to enable the com-

pany to determine whether the grocery picture was actually weak in any given district and on any specific product, or whether a low percentage of volume through grocery channels reflected strength in other channels. Exhibit 5 shows a comparison of Boston's district and national grocery pattern

Exhibit 5. PALFREY COMPANY. Comparison of Boston District and National Volume Sold to Grocery Trade. Basis: Total 1944 Sales

Class of trade	D		C		A	
	U.S.	Boston	U.S.	Boston	U.S.	Boston
Grocery total	68.33%	27.29%	67.95%	25.70%	74.70%	65.79%
Wholesale	42.18	17.07	38.70	20.27	45.63	32.30
Retail	3.05	2.46	4.83	5.43	3.44	5.49
Chain	23.10	7.76	24.42	..	25.63	28.00
Effectiveness index	.	12.1	.	15.1	.....	78.4

Class of trade	E		B		5-product total	
	U.S.	Boston	U.S.	Boston	U.S.	Boston
Grocery total	36.23%	12.41%	31.79%	2.43%	69.63%	56.06%
Wholesale	18.00	8.48	13.26	0.59	41.93	28.37
Retail	4.13	3.93	1.50	0.99	3.39	4.97
Chain	14.10	. . .	17.03	0.85	24.31	22.72
Effectiveness index	.	.	..	3.7	.....	52.8

in percentage of total product sales. The grocery performance index for the Boston district is shown in Exhibit 6.

Exhibit 6. PALFREY COMPANY

Product	*Boston's Grocery Effectiveness Index*
D	12.1
C	15.1
A	78.4
B	3.7
Total, above items	52.8

99. CRAMWOOD COMPANY. Determining Profitability of Accounts

The Cramwood Company, with annual sales over $22,000,000, was one of the largest manufacturers of underwear and sleeping garments in the United States. The salesforce of 50 men operated out of seven branch offices and sold the entire line of merchandise direct to department stores, dry goods stores,

and clothing shops. Salesmen were paid straight salaries based upon a man's ability, length of employment with the company, and the size and location of the territory he covered. They were nominally responsible to their respective branch managers, although many of their activities were directed from the home office in Cleveland, Ohio, through printed suggestions and instructions mailed frequently to branch managers for distribution. Many of the larger accounts were solicited personally by the branch managers. Terms of sale were 2% end of month, net 60 days. Approximately 90% of the accounts took the full discount.

Several of the executives believed that a substantial percentage of the company's accounts were unprofitable, although no analysis had been made. In February, 1956, the sales manager asked to have such a study made, to enable him to determine which, if any, accounts should be dropped, and the proportionate amount of selling attention to be given to each account. Business for the year 1955 was chosen for the analysis and six months were spent in making the study.

The first major step was to investigate a salesman's activities during every working day of 1955; such information was readily available from the daily call and expense reports and a standard road map which provided the basic data for the analysis. From these sources it was found that Mr. Merrill's activities on January 2, 1955, were as follows:

1. Eight calls were made.
2. Four towns were visited: the distance from the last town visited the preceding day [1] to Ithaca, New York, was 5 miles; from Ithaca to Cortland, New York, 20 miles; from Cortland to Truxton, New York, 10 miles; from Truxton to Syracuse, New York, 25 miles.
3. The calls were distributed among the towns as follows:

Ithaca	2 calls
Cortland	1 call
Truxton	2 calls
Syracuse	3 calls

4. Automobile expense, including gas, oil, and garage for the preceding night,[2] was $6.
5. Living expenses, including meals and hotel for the preceding night,[3] were $12.

[1] The distance traveled from the last town visited on one day to the first town visited on the following day was considered a charge to the latter town.

[2] Auto expense for a single night was considered chargeable to the calls made the following day. Items of major automobile repair expense, like grinding of valves, relining brakes, and replacement of rings and pistons, were accumulated in a separate repairs total which was prorated to towns on distance basis at end of year.

[3] Hotel expense for a single night was considered chargeable to the calls made the following day.

Having taken these basic facts into account, the procedure then followed in this aspect of the study may be understood by referring to the column headings in Exhibit 1. The date, the name [4] of the store called upon, and the store's location were noted in the first three columns, respectively. Those conducting the analysis were not here concerned as to whether a sale had resulted from the call; the purpose was to consider all calls. Next, the productive time spent on each call was estimated and then recorded in the fourth column. In estimating the productive time allotted to each call, the first assumption was that eight hours composed a normal working day. The actual time spent on a particular call was not recorded by salesmen, however, so a second assumption was made: the productive time per call was to be considered a simple arithmetical average, dividing a day's total productive time by the number of calls made during that day. Although the results were not accurate, in the absence of the actual facts the method was considered defensible. Allowance had to be made for nonproductive travel time, however, so another hypothesis was set up: such time was to be based on the actual distance traveled at an assumed speed of 30 miles an hour. Referring to the above-mentioned data regarding Mr. Merrill's activities, his estimated productive time per call was determined as follows: First, the facts (obtained from the road map) indicated that Merrill traveled 60 miles in visiting four towns; at 30 miles per hour, this was equivalent to two nonproductive hours, which, when subtracted from a normal working day of eight hours, showed that Merrill spent six productive hours during that particular day. Second, since Merrill made eight calls within a period of six hours, he spent 45 productive minutes (360 minutes $\div$ 8 = 45 minutes) on each call, under the arithmetical average method used in this step. Third, the nonproductive travel time had next to be absorbed by the productive time. Merrill traveled five miles to reach Ithaca, which was one-twelfth of the 60 miles traveled that day; and similarly, one-third was spent in going from Ithaca to Cortland, one-sixth from Cortland to Truxton, and five-twelfths from Truxton to Syracuse. Out of the 120 nonproductive minutes, 10 minutes, therefore, were chargeable to Ithaca, 40 minutes to Cortland, 20 minutes to Truxton, and 50 minutes to Syracuse. More than one call was made in three of the towns, however, so the fourth step was to charge each call within a town with a portion of the nonproductive time spent in travel to that town. Thus, in Ithaca, Merrill made two calls, so that the nonproductive time of 10 minutes was divided equally between them. The single call in Cortland was charged with all the nonproductive time used in reaching the town, or 40 minutes; the two calls in Truxton were charged with 10 minutes, 17 minutes were charged to two accounts and 16 minutes to one account in Syracuse. Therefore the estimated productive time per call including absorbed nonproductive travel time, was as follows:

[4] Number used for disguise.

Ithaca:
First call—45 minutes (productive) + 5 minutes (nonproductive) = 50 minutes (or 0.83 hour)
Second call—45 minutes (productive) + 5 minutes (nonproductive) = 50 minutes (or 0.83 hour)
Cortland:
1 call only—45 minutes (productive) + 40 minutes (nonproductive) = 85 minutes (or 1.41 hours)
Truxton:
First call—45 minutes (productive) + 10 minutes (nonproductive) = 55 minutes (or 0.92 hour)
Second call—45 minutes (productive) + 10 minutes (nonproductive) = 55 minutes (or 0.92 hour)
Syracuse:
First call—45 minutes (productive) + 17 minutes (nonproductive) = 62 minutes (or 1.03 hours)
Second call—45 minutes (productive) + 17 minutes (nonproductive) = 62 minutes (or 1.03 hours)
Third call—45 minutes (productive) + 16 minutes (nonproductive) = 61 minutes (or 1.03 hours)

The amounts were then expressed in terms of hours in Column 4, as may be seen in Exhibit 1.

As indicated in the fifth column of Exhibit 1, automobile expense was prorated among the calls according to the distance traveled in reaching the towns in which the calls were made. Merrill's total travel expense for the day was mentioned above as $6. The five miles traveled to reach Ithaca was one-twelfth of the day's total mileage, so that the calls in Ithaca were charged with one-twelfth of the travel expense, or 50 cents; since two calls were made in Ithaca, they were charged with 25 cents each. Similarly, the one account in Cortland was charged with one-third the traveling expense, or $2; each account in Truxton, 50 cents; each account in Syracuse, 84 cents, 84 cents, and 82 cents, respectively.

Other expense, including meals, hotel, and incidental items, was next charged to each call, as indicated in Column 6, in proportion to the productive time spent on it. For instance, each call in Ithaca had been charged with 50 minutes of productive time (including absorbed nonproductive time), or 50/480 of the number of minutes available during the working day; each account in this town was therefore charged with 50/480 of the total other expense (which was mentioned above as $12 for this day), or $1.26. Similarly, the other expense for the single call in Cortland was $2.12; for each account in Truxton, $1.38; the three accounts in Syracuse, $1.54, $1.54, and $1.52, respectively. In the seventh column was shown the combined travel and other expense for each call made.

Exhibit 1. CRAMWOOD COMPANY. Day-by-Day Analysis of Sales Expense, by Accounts, 1955. Salesman Merrill

(1) Date	(2) Customer *	(3) Town	(4) Estimated number of productive hours, including nonproductive time	(5) Prorated automobile expense	(6) Prorated other expense	(7) Total prorated and other expense
Jan. 2	267	Ithaca, N.Y.	0.83	$0.25	$1.26	$1.51
Jan. 2	268	Ithaca, N.Y.	0.83	0.25	1.26	1.51
Jan. 2	201	Cortland, N.Y.	1.41	2.00	2.12	4.12
Jan. 2	298	Truxton, N.Y.	0.92	0.50	1.38	1.84
Jan. 2	299	Truxton, N.Y.	0.92	0.50	1.38	1.84
Jan. 2	377	Syracuse, N.Y.	1.03	0.84	1.54	2.38
Jan. 2	378	Syracuse, N.Y.	1.03	0.84	1.54	2.38
Jan. 2	380	Syracuse, N.Y.	1.03	0.82	1.52	2.34
Dec. 31	348	Lockport	1.21	1.78	0.48	2.26
Dec. 31	349	Lockport	1.21	1.78	0.48	2.26
Dec. 31	345	Lockport	1.20	1.80	0.48	2.28
Dec. 31	194	Buffalo	0.74	0.50	0.30	0.80
Dec. 31	199	Buffalo	0.74	0.50	0.30	0.80
Dec. 31	200	Buffalo	0.73	0.50	0.30	0.80
Dec. 31	193	Buffalo	0.73	0.50	0.30	0.80
Dec. 31	198	Buffalo	0.72	0.50	0.28	0.78
Dec. 31	196	Buffalo	0.72	0.48	0.28	0.76

* Includes prospects.

As indicated in Exhibit 2, in the second major step of the analysis of the profit and loss by individual customers was determined for the year by using the composite information from Exhibit 1 and adding additional facts obtained from the company's sales records. In the first three columns were shown, respectively, the number of calls made on a customer during the year, the name [5] of the account, and its location. The amount of sales for the year and gross profits thereon for each customer were then recorded in the fourth and fifth columns, respectively. Column 6 gave the total number of hours spent on each account during the year, the figures representing not only the productive time but the nonproductive time, absorbed in the manner previously explained. In the seventh column was shown the year's total prorated travel expense for each account. The salesman's prorated salary expense was shown in the eighth column; this expense was determined by allocating a salesman's annual salary to each account on the basis of total hours of productive (plus absorbed nonproductive) time spent with that account during the year. The other expenses, listed in the ninth column, were similarly dis-

[5] Number used for disguise.

Exhibit 2. CRAMWOOD COMPANY. Profit and Loss Analysis by Individual Customers, 1955.
Salesman Merrill

(1) Total number of calls during 1955	(2) Customer *	(3) Town	(4) 1955 net sales	(5) Adjusted gross profit	(6) Working time in hours	(7) Prorated travel expense	(8) Prorated salary expense	(9) Other expense prorated on time basis	(10) Other expense prorated on sales basis	(11) Total expense	(12) Net profit or less
5	100	Adams	$ 40 00	$ 7 08	7 90	$ 9 74	$ 19 70	$ 22 36	$ 2 08	$ 54 28	$ 47.20 †
7	101	Akron	300 10	124 20	13 07	22 20	32 66	36 24	19.22	110 32	13.88
4	102	Akron			1 60	2 00	4 04	4 62		10 66	10 66 †
7	103	Albany	1.311 86	373.92	5 57	7 38	13 92	15 58	75 06	111 94	261.98
3	104	Albany			1 18	1 54	2 94	3 30		7 78	7.78 †
1	105	Albany			0.82	1 18	2 04	2 30		5.52	5 52 †
15	106	Albany	3.009.60	1.053.04	26 36	36 68	66 00	73.80	186 60	363 08	689.96
5	107	Albany	107 40	36 68	1 38	1 78	3 46	3 88	6 66	15 78	20.90
1	108	Albany	56 16	22 06	0 80	1 44	2 02	2 26	3 48	9 20	12.86
8	109	Albany	1.671 24	408 18	10 15	14 46	25 40	28 40	103 64	171 90	236.28
2	392	Watervliet			2 67	3 42	6 68	7 48	.	17 58	17.58 †
7	393	White Plains	302 30	125 90	13 04	22 70	32 64	36.50	18 74	110.58	15 32
7	394	White Plains	2.711 08	897 62	13 02	22 68	32 56	36.44	168 10	259 78	637 84
2	395	Williamson		.	4 30	11.86	10 74	12.04		34 64	34 64 †
1	396	Yonkers			1 65	2 16	4 14	4 62	..	10 92	10.92 †
2	397	Yonkers			3 55	8 12	8 90	9.94	.	26.96	26.96 †
1	398	Yonkers	582 24	210 44	8 23	13 44	20 60	23 04	36 10	93 18	117.26
2	399	Yonkers	78 76	35 76	3 53	5 20	8 84	9.88	4 88	28.80	6 96
7	400	Yorkville	1.074 16	366 88	13 88	17 98	34 72	38.84	66 60	158 14	208 74
1	401	Yorkville			1 77	2 46	4 44	4 96		11 86	11 86 †
Total			$67.696.40	$22,897 62	2.248 00	$3,127 24	$5.625 16	$6,292 22	$4,197 44	$19,242 06	$3,655.56

* Includes prospects.
† Losses.

Exhibit 3. CRAMWOOD COMPANY. Comparative Profit and Loss Summary for Salesman Merrill in 1955 Showing Classification of Profit and Loss by Profit Classes

Per cent of profit or loss	(1) No. of customers and prospects	(2) No. of calls	(3) Average no. of calls per store	(4) 1955 net sales	(5) 1955 gross profit	(6) 1955 total expense	(7) 1955 net profit or loss	(8) % gross profit to net sales	(9) % net profit to net sales
Over 10.0%	53	338	6.4	$57.003.72	$19.609 42	$ 7.422.64	$12.186.78	34.6	21.6
5.0%–9.9%	12	57	4.8	3.899 16	1.200.44	915.50	284.94	30.8	7.3
0.0%–4.9%	6	26	4.3	1.402.36	444.28	403.58	40.70	31.7	2.9
Below 0.0% customers	53	287	5.5	5.391.16	1.643.48	3.393.50	1.750.02 *	30.4	32.4
Below 0.0% prospects	277	720	2.6			7.106.84	7.106.84 *	....	Infinity *
Total	401	1.428		$67.696.40	$22.897.62	$19.242.07	$ 3.655.56	33.8	5.4

* In red.

tributed, such expenses including allocated branch office supervision and overhead, which, in turn, included allocated home office expense. Column 10 gave those expenses prorated on a sales basis, which included advertising and various sales promotional charges. Those accounts, including prospects, which did not buy during the year were not charged with this expense, since it was believed that sales promotional methods in those instances had proved ineffective. Column 11 presented the total expense incurred in selling, or attempting to sell, each account during the year, and the net profit or loss from these activities was shown in the twelfth column.

The third and final major step in the analysis consisted in grouping the accounts according to estimated net profit: over 10%; 5% to 9.9%; 0.0% to 4.9%; and below 0.0% for both customers and prospects, respectively. For each profit class the following data relative to 1955 were determined for Mr. Merrill in this column order, as shown in Exhibit 3: (1) number of customers and prospects; (2) number of calls; (3) average number of calls per store; (4) net sales; (5) gross profit; (6) total expense; (7) net profit or loss; (8) percentage of gross profit to net sales; (9) percentage of net profit to net sales.

Were the results of the study a dependable basis for action in treatment of unprofitable customers?

Was the procedure followed in making the analysis sound?

Should the sales manager have recommended that unprofitable accounts be dropped? What action should the sales manager have taken?

CASES IN BRIEF

1. An office appliance company divided its field force in eight divisions, each in charge of 10 branches. In the first half of 1953, the record showed all divisions had exceeded budget expense ratios although for four the variances were small. It was believed that merely calling attention to the variance would probably be sufficient to bring the needed corrective action. However, four other divisions showed substantial variances as follows:

	Above budget variances		
	Compensation	Travel	Other
B. K. Ansel	$19,185	$21,206	$ 8,516
F. L. Davidson	32,038	3,666	9,664
S. M. Jenkins	89,226	13,002	4,137
L. R. Young	42,866	30,132	13,053

a) What alternatives needed to be considered to correct this situation?

At the same time in the six-month period, branch facilities expenses were $168,176 over the budget allowance. A breakdown showed that the following principal expense items were the cause:

	Actual	Variance
Office salaries	$545,693	$75,593
Telephone and telegraph	174,780	20,280
Postage	51,040	10,280
Donations	5,848	2,148
Personal services—filing fee	4,406	4,406
Amortization of leasehold assets	30,887	0,887
Insurance	52,728	2,728
Taxes	208,132	80,032

b) What alternatives should be considered in coming to a decision on corrective action?

2. The Cherryfield Company, distributing a wide line of sporting goods and house furnishings throughout the Middle West, traveled about 200 salesmen in country territories and about 40 salesmen in resident and principal cities. Salesmen were paid a varying commission dependent upon the profit standing of particular lines. Approximately 10% was added to the real cost of products to cover handling expense and the difference between this cost and the selling price was considered "salesman's profit," on the basis of which the salesmen were compensated. They received 25% of all net profit earned in the territories to which they were assigned. All the products handled by the company were divided among 18 departments, each in charge of a buyer who was responsible for pricing the products, watching the stock, and purchasing. On larger purchases these buyers were subject to the general supervision of the vice president. The executives had long realized that customary annual reports on the profitability of general operations were inadequate for satisfactory control of the selling operations. Several years previously a system had been devised for assigning overhead and general sales expenses to product departments purely on a sales volume basis. However, this plan was considered inadequate because it penalized the departments whose products were of high unit value with low sales costs and gave an unearned advantage to those whose products were of low unit value and high sales costs. It was proposed that the company allocate operating expenses to each department, including general expense of executives, production and collections, office expense, taxes and insurance, etc. It was believed that using different bases of allocation would lead to more accurate profits and loss statements.

Should the plan be adopted? If so, what refinements could be suggested?

3. The Milton Pen Company manufactured fountain pens, which were sold under the company's name directly to retailers in most areas. Jobbers were used in sparsely settled areas which could not support direct sales effort. For purposes of sales administration, the selling area was divided into four districts, each under the control of a manager, who supervised the salesmen and solicited jobber accounts. Salesmen were paid salaries and expenses, plus a 4% commission on sales above quota.

The sales manager desired to install a system for allocating selling expenses among districts, salesmen, and accounts, and needed to determine the bases for proper allocation. The following expenses had to be considered in each district: (1) salesmen's salary, expenses, and bonuses, (2) district manager's salary and expenses, (3) cost of sales convention, (4) salaries of sales executives, (5) sales control, (6) sales statistics, (7) billing department, (8) order and shipping department, (9) credit department, (10) miscellaneous indirect selling expenses, (11) magazine advertising, (12) national newspaper advertising, (13) local newspaper advertising, (14) radio advertising, (15) display and direct mail, (16) salaries of administrative executives, (17) general office accounting, (18) losses and expenses on returned goods.

On what basis should the sales manager have allocated each of the above expenses to determine profit or loss for each district? How should these expenses have been allocated in order to determine the profitability of individual salesmen's operations in a district? How should these expenses have been allocated in order to determine the profitability of the accounts in a district? Would any additional facts be required in order to determine the profitability of salesmen or accounts to the company?

4. What constitute the operating expenses of a sales department? Do the classes of sales operating expenses vary materially between wholesale establishments and manufacturers' sales departments? What items should be included in selling and distribution expenses?

5. Should a company manufacturing industrial supplies sold through mill supply

houses in various parts of the United States ask its accounting department to make out monthly operating statements for each of its 50 salesmen?

6. *Discuss the following quotations with reference to the practical use of distribution cost accounting as a tool of the sales manager:*

"Cost of production and cost of selling are analogous in this respect in that they are naturally divisible into two types: (1) cost of operations, (2) cost by products.

"Cost of operations is what the term implies, that is, the cost of operating the various offices and departments subdivided into their functional costs and the costs of such nature as advertising, fixed charges, etc. The cost by products represents the cost of operations prorated by some method to the various products.

"Both types of costs are necessary for a complete and comprehensive control of selling activities." *N.A.C.A. Bulletin.*

"Distribution cost accounting, when it is fully developed, will doubtless be based on the same fundamental principles as factory cost accounting but the point of emphasis, I think, will be changed. Factory cost accounting has been built around and has always been strongest in the use of direct merchandise costs. The application of joint indirect costs has always been its weakest link. Distribution costs, on the other hand, are almost entirely joint indirect costs. The way to study and control indirect costs is to study them as direct costs of the operation or function for which they are expended, rather than after the cost of such function has been distributed to other accounts. Hence, I believe that distribution cost accounting should lay its greatest emphasis on the study of costs by operations or functions rather than upon the study of costs by goods. The way to understand and control joint costs is to recognize them as such, and to attempt to draw a cost and profit picture of the business with and without each marginal factor. Hence, I believe that distribution cost accounting should lay less emphasis on comparing complete costs with the complete sales and more emphasis on comparing marginal costs with marginal sales." *N.A.C.A. Bulletin.*

7. The Newark, New Jersey, branch manager of the Hampton Office Machine Company, a very able and successful executive, proposed that in the future general sales overhead allocated to sales branches by the home office should be distributed upon the basis of quotas which were assigned to each branch after they had been developed by the home office in cooperation with the branch management. Heretofore, the allocation of overhead had been based upon actual sales.

Would the proposed method be fairer to the company and to the branch manager than the present practice?

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