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MARKETING

CASES IN MARKETING

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ALLYN and BACON, Inc., New York, 1954

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To

Naomi and Rita

Preface

Cases in Marketing is the outgrowth of the requirements of both authors in teaching the general or introductory course in marketing. There is no doubt that the case method of instruction, properly presented, offers students a foundation in analysis and understanding that no descriptive method can achieve.

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

We are indebted to the busy executives who gave their time to help compile the information embodied in the cases. In addition, we owe thanks to our graduate students who assisted us in gathering some of the raw material on which several of the cases are based.

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

LAWRENCE C. LOCKLEY
CHARLES J. DIRKSEN

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CHAPTER ONE

Marketing As An Economic Activity

Evolution of Marketing

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

Marketing as we know it today did not exist, because merchandise was not produced in large or uniform lots. When the Industrial Revolution made manufacture in large quantities possible, marketing institutions and techniques had to develop rapidly. And as manufacturing facilities and methods improved throughout the years, it was necessary to rely more and more on

marketing, as a separately organized economic activity, to move the goods so produced. If mass manufacture is one blade of a scissors, mass marketing must be the other blade.

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

Cost of Marketing

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

Let us contrast this situation with that of today's shoe industry. Taking advantage of every possible mechanical improvement in manufacturing, taking advantage fully of the principle of division of labor, and dealing in raw materials in optimum quantities, a competent shoe manufacturer might produce shoes with factory door costs of four dollars a pair, for which the consumer might pay ten dollars. For half the money (ten dollars instead of twenty), the consumer has been able to buy a far better pair of shoes. Yet marketing costs seem to have risen from 5 per cent or 10 per cent to 60 per cent of the consumer's retail dollar. And

instead of buying something tangible and visible, this 60 per cent buys an intangible something called *distribution.*

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

Comparison of Production and Marketing

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

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

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

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

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

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

Approaches to the Study of Marketing

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

Commodity Approach

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

necessary with the description of the marketing steps for similar products or commodities. Further, there may be a tendency to impute to the marketing system of differing product characteristics greater influence than actually exists. Nevertheless, the commodity approach is definite and concrete, and leads to specific, if not general, knowledge of marketing.

Institutional Approach

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

Functional Approach

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

Historical and Cost Approach

During the past few years, attempts have been made to develop the study of marketing around the concepts of historical and cost trends. This method involves a careful analysis of the historical development of marketing institutions, and the study of cost trends in their use. Unfortunately, the data required for

reliance on this approach are difficult to find, so that it exists primarily as a theoretical method.

It is rare indeed for any text in marketing to follow only one of these four approaches. Rather, a blend of two or more will be used. But in every instance, the student who does no more than memorize what is put before him in a text will emerge from his study of marketing with little that he can use. He must have understanding as well as facts. He must be able to apply as well as to remember. And it is important that he be able to understand and apply.

Marketing Opportunities

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

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

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

High achievement in marketing is coming more and more to depend on the same analytic qualities that are brought into play in production planning. The engineer is trained for his job.

The salesman is rarely so trained. If a resourceful and energetic young man brings to marketing the same earnest willingness to work, the same ability to acquire information and to analyze that the engineer is expected to have, he can find abundant opportunities for a highly satisfying career.

CHAPTER TWO

The Use of the Case Method in Studying Marketing

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

The beginner in business does not start out by being asked to solve problems or to establish business policy. He starts out by performing more or less routine duties under the direction of someone else. But as he rises in rank and responsibility, he will have to cope more and more with problem-solving—with determining what should be changed when things are not going well, and with finding out how to do things that have not been done before. If he has had the chance to accustom his mind to

problem-solving through the case method, he will be ready for advancement earlier and may be expected to show greater competence as opportunity comes to him. Although the case method is not a substitute for business experience, it is certainly one of the best preparations for making that experience fruitful.

Need of Outside Reading and Observation

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

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

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

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

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

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

weeks of active observation will develop an astonishingly wide background.

Approach to the Case Method

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

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

No One Solution

It is important to remember that few cases have a *right* answer. The solution suggested for the problem should be supported with a logical structure of reasoning and argument. But almost always, in business as well as in the analysis of cases, there may be several plausible ways of proceeding. Should a man's hat of high quality and reasonably high price be distrib-

uted through exclusive, selected, or dense distribution? Leading manufacturers have successfully used all three of these methods. To suggest just one way as *the* right way is obviously inadequate. Which of these three methods is preferable for a particular manufacturer will depend on the channels of marketing he is using, the state of consumer acceptance of his brand, the distribution facilities in a particular market, and so forth. Thus, the specific solution suggested is less important than the reasoning with which it is supported.

The student may feel that this point of view makes his objectives in a course based on the case method less definite. That is certainly true. But it is equally true in business. And it is to take his place in business that the student is studying marketing. Moreover, as he becomes accustomed to working with cases, he will come to realize that the requirements of this method give him more scope for his resourcefulness and ingenuity.

Development of Principles

One of the by-products of case study is that each case will allow the formulation of one or more *principles* of marketing. The marketing executive who has spent many years working in various stages of marketing will know, almost by instinct, what he can expect from this or that set of marketing arrangements. Often that practical businessman scoffs at the idea that there are principles which can be formulated, and which can then be used as guides in thinking. Nevertheless, he is likely to have built up, in his own mind, a series of precedents ("We did it this way in . . .") that closely parallel the principles which can be adduced from analysis of marketing cases.

Some of these principles seem almost self-evident. For example, one principle states that, in the absence of price or display advantages, the consumer tends to prefer the familiar or established brand. Yet this and other similar generalizations give the analyst guidance in formulating marketing policies.

Possibly the best way of explaining the use of cases in studying marketing will be to reproduce a typical case, and then indicate the kind of discussion which might take place in the classroom.

THE HEBRON ELECTRIC COMPANY

In the latter part of 1944, the Hebron Electric Company sought some product which could be sold widely and which would utilize its expanded manufacturing facilities. The company had been started by Mr. A. C. Hebron in Cleveland, Ohio, in 1932 as a neighborhood repair shop for electric appliances, but had expanded rapidly to a fairly stable business of custom installation of intra-plant communication systems. By 1939, the firm was concentrating on its custom communication system installations, and was doing an annual business of between $200,000 and $250,000. Standard components were purchased, so that the company did little manufacturing.

Mr. Hebron and two salesmen were selling their communication systems through Ohio and western Pennsylvania. As orders were obtained, three skilled installers moved from location to location, to supervise the work of local electricians who were setting up the systems. The company leased a small building in Cleveland which it used as an office and warehouse.

After the outbreak of war in Europe, Mr. Hebron had an opportunity to manufacture specialized military communication systems for overseas shipment, and rented factory space (with an option to buy) in which to manufacture the electrical components for these communication systems. After the United States entered World War II, an increasing volume of military orders flowed into the Hebron Company. Mr. Hebron exercised the option to buy the building he had leased and installed all the equipment needed for the complete manufacture of military communication systems. Because of the difficulties of getting priorities for nonmilitary business, the company withdrew from its intra-plant communications business, dropping both salesmen and moving the traveling installation experts into the factory as foremen.

By the end of 1943, the Hebron Company had built up a sales volume of slightly over seven million dollars a year. Because the company was confining its work to military contracts, Mr. Hebron himself was handling all contract negotiations, and the company had no sales

force. In the middle of 1944, military orders began to taper off, and the company found itself with excess manufacturing capacity.

In seeking an outlet for this excess capacity, Mr. Hebron found that there was a considerable consumer demand for table model radios, which had not been available since the early part of the war. Moreover, the larger pre-war radio manufacturers were tied up with longer-term military contracts, and obviously could not manufacture for this market in any volume for several months more. In addition, they were caught under O.P.A. ceiling prices, and could not profitably manufacture at prices allowed them.

The Hebron Company found that it could manufacture the chassis and buy the cabinets to produce a satisfactory table model radio for a total factory door cost of $8.56. When making inquiries Mr. Hebron learned that a retail price of $27.90 would be regarded as suitable by radio retailers. Since the product was new to the Hebron Company, there was no base price, so that O.P.A. regulations did not prevent the setting of this price. He found, also, that retailers would be willing to handle the new radio with a gross margin of 33⅓ per cent, and that a manufacturers' agent with branches in major markets would undertake wholesale distribution for a gross margin of 20 per cent, buying F.O.B. Cleveland. Thus, the Hebron Company would receive $14.88 per radio.

Because Mr. Hebron believed that the manufacturers of the major branded and advertised radios would soon enter the market again, he felt that he must get his radio established on the market in the shortest possible time. Although he would have preferred to control the distribution of the new radio, he was afraid that it would require at least a year to build up a sales force and to obtain retail distribution. Therefore, he signed a contract with the manufacturers' agent, and early in 1945, began to manufacture the new radio under the brand name of Star-Tone. Within a few weeks, the Star-Tone radio had been purchased by leading radio, music, and department stores throughout the country, and orders were coming into the Hebron Company faster than the company's factory could fill them.

However, as soon as the widely known and advertised brands of radios were manufactured again, retailers turned from Star-Tone to the brands they had sold before the war. By the end of June, 1947, the manufacturers' agent who had been handling the distribution of Star-Tone radios cancelled his contract and discontinued selling the

radio. By the end of July, all orders had been filled, and the Hebron Company was out of the radio business.

Analysis of Hebron Company Case

SELECTION OF THE MAIN ISSUE

The student who prepares this case for class should start by isolating the problem. At one point in time, the problem centered around the company's selection of one or more products to manufacture to make use of the productive capacity and labor force it had gathered. And at this point, it was clear that the product or products selected should have been in the general field of vacuum tube reproduction of sounds. It could have been radio equipment, dictating machine equipment, noncustom intercommunication equipment, or something similar.

To make a suitable choice of products would require considerable background in the technological aspects of sound transmitting equipment, as well as some idea of the market for such equipment.

But as the case is carried to its conclusion, it becomes evident that the problem is related to explaining the failure of the company to continue the successful marketing of a table model radio which had apparently given consumer satisfaction. After consideration of the case, the student should, without help, realize that this is the problem that needs discussion and solution.

Class Discussion of Case

When the case comes up in class, the student should not expect the instructor to ask for a repetition of the facts given in the case. The student who is not familiar with them will soon reveal his lack of preparation by the fumbling nature of his discussion. Through a series of questions, the instructor will lead the members of the class to define the problem as the one mentioned above.

It may well be that he will then ask members of the class to list the facts needed to explain Hebron's failure to keep the Star-Tone radio on the market. In this particular case, few additional facts are necessary. It might be desirable to know whether the margins for retailers, the manufacturers' agent, and Hebron itself are usual and adequate. It might be well to know something of the sales efforts of the retailers who sold radios: Did they customarily handle a wide selection of brands of radios? Did they influence the consumers' choice of brands? Did they have strong brand preferences themselves? Was there any critical reason for them to prefer one or another brand of radio?

Library references will give some idea of usual margins. Dun & Bradstreet reports—which are in many college libraries—will indicate the usual margins in a good many retail and wholesale trades. If the student has an opportunity to talk with a retailer who sells radios and kindred merchandise, he can learn a great deal which will be helpful. But in the absence of this opportunity, scanning the pre-war newspaper advertisements of radio retailers will reveal most of the information necessary. Incidentally, it might be well for the student to check newspaper files to learn whether the retail price of the Star-Tone radio was competitive with the first post-war offerings of General Electric, Philco, R.C.A., and other well-known brands.

Development of Solution

Once the student has isolated the problem in the case and has collected what information is helpful in thinking about it, he can then approach his analysis. Hebron could have entered into the radio business for either of two reasons: (1) to become a permanent factor in this business, and ultimately to offer a reasonably complete line of radios; or (2) to have a product which would be a temporary success while the company prepared another product or line for the market. The fact that there was no mention of preparing other products suggests that Hebron hoped to remain in the radio business.

Star-Tone was an almost instant success and was given wide distribution with a minimum of sales effort because radios had not been manufactured for the consumer market for several war years, and many people had old, obsolete, and out-of-order radios. This was the first radio offered toward the end of the war, and was bound to be purchased by people who needed radios, and could get no other brand.

Had it not been a satisfactory radio, it would not have been reordered in the early weeks of its temporary success. What went wrong? It seems fairly clear that Star-Tone was a good radio. Possibly its price was a little high. But at the end of the war, consumers were so anxious to get merchandise that had been scarce that they were not too critical of price. Something other than the quality of the radio or its price must have been a fairly sudden and decisive factor.

In the first place, we found that the radio had an almost overnight success in achieving retail distribution. It is fair to infer, therefore, that retailers who had previously carried radios and to whom customers came looking for radios constituted the most promising market, and in fact, must have been the ones who stocked Star-Tone as soon as it was offered. If this inference is true, then these were the retailers who had stocked other brands of radios before the war—brands that had a wide consumer acceptance. If they had been able to sell Star-Tone at first, even though it was a new brand with which consumers were unfamiliar, what would make Star-Tone's sales taper off rapidly, and discourage retailers from reordering? Obviously, it was the reappearance of the familiar, established brands, with which the retailers had had a long history of profitable cooperation and which the consumers had regarded as desirable.

When Philcos, General Electrics, Zeniths, R.C.A.'s, and the other leading brands reappeared, the stores which had accepted Star-Tone because they could get no other radio to sell immediately reverted to the established brands. Because they had been the stores to which consumers looked for radios, they were the

ones most anxious to offer even a new and unknown brand until they could again purchase those that had a consumer following.

Had the management of the Hebron Company been experienced in the marketing of consumer goods, it would have realized that the distribution of Star-Tone through outlets associated with long-established brands was a purely temporary situation. Is there anything Hebron could have done to remain in the radio business successfully? Two courses lay open. In the first place, they could have sought contracts for manufacturing radios for sale under private brands. It was just at this time that a good many of the variety chains were breaking their conventional price limits and going into merchandise of the price class of Star-Tone. A careful sales presentation might have achieved enough private-brand business to serve their needs.

Another course could have been followed. It should have been evident that a retailer long known as the Philco dealer in his community would not permanently exclude Philco merely because he could get Star-Tone a few months early. He might—as a great many did—make what sales and profits he could by selling Star-Tone until *Philco* (or another established brand) *was again* available. But outlets that did not have a pre-war association with established brands or that might not have been able to obtain franchises for the prestige brands of radios were emerging as potential radio retailers. These might have been cultivated, and might have constituted permanent vendors for Star-Tone.

Neither the private brand market nor the market among retailers without previous brand commitments could have been developed on the overnight basis. But in either case, Star-Tone would have been a permanent choice, not a temporary substitute. Neither of these other and more permanently promising markets could have been reached rapidly and cheaply. Hebron would have had to develop a sales force, undertake what consumer advertising was necessary, and slowly and steadily establish Star-Tone as an acceptable brand for a new group of retailers.

At the time Star-Tone was first placed on the market, it would have been possible to develop a market among retailers who had not previously stocked established brands. It will be remembered that there was a so-called pent-up demand for radios. As long as normal radio channels could offer Star-Tone, consumers would go for them. However, if these outlets had no radios to offer to the public, but another, and unfamiliar, group of retailers was able to offer a suitable radio, there would have been a chance to build new trade connections that might well have been lasting.

This train of thought is reasonably convincing and indicates the methods of analysis of cases. At once, the student will realize that he is on the way to an adeptness in dealing with marketing problems. But there is still one more step. Are there any *principles* that can be adduced from this case? Is it a unique situation, or are there points of similarity with other problems?

Marketing Principles in Case

The critical factors in this case were: First, *consumers prefer an established brand to a new and unknown brand for products the quality of which they cannot judge in advance.* Second, *unless there is a compelling difference in profit margins, retailers prefer to stock merchandise which has consumer acceptance, and hence, will sell with a minimum of sales effort.*

These generalizations will apply not only to Hebron's Star-Tone radio, but to a wide variety of marketing situations. The Hebron case illustrates them and affords the basis for the student's formulation of these principles. But they will stand as guides for thinking and for marketing policy in other marketing problems. It may be that class discussion will formulate these principles less completely, or in other words. But out of the class discussion can always come the formation of marketing principles which will apply widely, if not universally. And it is these principles which will remain as residual guides to thinking toward marketing policy.

Difficult to Determine Main Issue

From the discussion of the Hebron case, it is clear that the case is a basis for applying analytic thinking to the marketing problems of a company, and that this analysis necessarily starts with the determination and formulation of the issue or issues involved. In preparation, therefore, and in class discussion, the first step will be to find the issue which constitutes the problem of a particular case. It may not always be easy to agree on which of the several aspects of a case constitutes the *main* issue. The class discussion which such a disagreement evokes will be highly productive. Always, however, a main issue will be a point indicating the need for, and direction of, executive action which should be (or should have been) taken.

Use of Questions at End of Cases

It will be noticed that each case in this volume is followed by several questions. These questions do not always, or do not often, define or formulate the issues. They are appended to each case merely as a reminder to the student to follow up various trains of thought. They are put in to help him locate the issues—not to save him the bother of finding them. As marketing problems arise in business, they do not emerge with the issues obviously formulated. That a problem exists is often realized only by indirect symptoms. In the Hebron case, events moved so rapidly that it was soon clear not only that a problem existed but that the problem demanded immediate action. In another type of case, a slight increase in the proportion of merchandise returned to a manufacturer might be the first indication of a defect in product or in packaging, or a smaller than usual seasonal increase in sales volume might be the first symptom of a loss of competitive position in the market.

Significance of Early Recognition

If an engineer is asked to appraise the strength of a bridge, he does not do so by having a succession of heavily loaded trucks driven over it to see if it breaks down under the strain. He measures the deterioration of each member or element of the bridge, calculates the remaining bearing capacity, and reaches an estimate of load capacity based on his analytic study of the bridge. In the same way, the marketing analyst should appraise each step and each segment of the marketing process, so that he can isolate weak spots and recommend modifications before the firm is in trouble.

If there is any difference between marketing problems as they occur in business, and marketing problems as they are presented in case books, it is that the cases present situations after they have developed to a point at which difficulties can often be diagnosed from information readily available to executives of the company concerned. In the Hebron case, it is not necessary to know when established brands of table model radios began to reach the market to understand what was happening, and why it was happening. But the problem would have been much less easy to isolate and solve in the earlier days of the Philco Corporation, which—after a number of years of radio leadership—decided to introduce an electric refrigerator and other major household appliances on a market already crowded with established brands. The issue, in this instance, would have been clear; could the company profitably introduce an additional line of household appliances? But any plausible and sensible solution would have depended on information gathered from many diverse sources not ordinarily available to the student, and on the most careful weighing of scattered evidence.

Necessity of Making Assumptions

One more general point about the discussion of cases must be emphasized: Almost always, one or more assumptions underlie

an individual's thinking about a case. In the Hebron case, we assumed that the Star-Tone radio was approximately equal in quality to the better known instruments with which it came to compete. This was so plausible an assumption that we hardly recognized it as such. Often the assumptions are a little more intellectually daring, however well justified they may be. When the Philco Corporation introduced a new electric refrigerator into a market already crowded with different brands of refrigerators, an assumption was made by the executives of the company, that is, that the Philco radio franchise was so valuable to retailers that they would stock the new Philco refrigerator rather than risk offending the company. This assumption turned out to be valid—but it was nevertheless an assumption at the time.

Probably the greatest cause of disagreement in the discussion of cases is the failure of participants in the discussion to recognize the fact that they are making assumptions, to state them explicitly, and to agree upon them. Not only does a clear statement of assumptions made help to reconcile what would otherwise seem to be differing points of view, but it leads as well to more precision in thinking. Rarely can any train of thought or conversation be carried on without making assumptions. If these be implied rather than recognized, there is great danger that they will never be scrutinized for validity, and it is only when assumptions are tested for justification that they can become links in a chain of reasoning.

Writing Commentaries

One of the most useful aspects of the case method of instruction is the opportunity it affords for the student to write commentaries. A commentary is a brief statement of the problem, or at least the major problem, involved in a case, with the analysis which leads to a specific conclusion or recommendation. No summary material from the case itself should be included—though facts from the case may be used as a part of the analytic train of thought. The commentary should start with a specific

statement of the issue or problem. Following the statement of the issue, analytic material which will lead to a definite conclusion should be presented. Sometimes reasons for rejection of an alternate course of action may be needed. A final conclusion which logically follows from the analysis should be given.

The student should be cautioned once again that answering the questions listed at the end of each case does not constitute a commentary. These questions are something like the string tied around a finger as a reminder—bringing the string home does not constitute doing the errand! The questions are intended merely to stimulate and direct thinking. The student is particularly cautioned against relying on these questions in locating the issue or issues of the cases.

These commentaries, like geometrical demonstrations, are bleak exercises in logic and analysis. Such terms as "*I think*" or "*I believe*" are not appropriate. The introduction of unsupported opinion or preference or prejudice leads to loose thinking.

Another qualification is of equal urgency. Marketing depends, far more than does manufacturing, on communication. It is highly important that businessmen, whose work depends on the communication of ideas, should write correctly and forcefully. Commentaries should be written, therefore, in a good, workmanlike standard of business English. Sentences should be complete. Split infinitives should be avoided. Pronouns should have specific antecedents and should agree with them in number and in person. It should be remembered that the noun *company* is singular and takes a singular pronoun. The possessive of *it* is *its*. The word *it's* is a contraction of *it is*. Contractions such as *shouldn't* and *wasn't* are not admissible in formal writing. The word *contact* is a noun, not a verb. *Claim* means *demand as a right*, not *state* or *say*. Demand is always based on latent needs; advertising, therefore, may *stimulate* demand, but cannot *create* it. Spelling should be correct.

Undoubtedly, the best way of indicating the nature of a commentary is to consider the several facets of a particular case, then to present a satisfactory commentary for it.

LAWTON MOP COMPANY

Selecting the Market to Introduce a New Product

The Lawton Mop Company, for more than twenty years manufacturers of household mops, brushes, and cleaning supplies, selling through department and hardware stores under the brand name "Bridget," began to manufacture and market a new type of mop. The new mop was composed of strands of porous and absorbent plastic extruded over cotton string. Tests showed that it had a higher rate of efficiency than any of the cotton string or cotton fabric mops on the market, and that it had a longer life than mops usually used in the household. However, when thoroughly dried, the new mop was not particularly attractive in appearance, looking something like a bundle of twigs. For that reason, the owner of the company, Mr. E. C. Dow, hesitated to offer it through the marketing channels the company usually used.

The Lawton Mop Company was a relatively small firm. Mr. Dow, the owner, acted as both production and sales executive. Three salesmen, working under him, handled all of the sales contracts. One of these men covered the department store buying office in New York City and called on hardware and department stores in the metropolitan New York area. The second salesman traveled throughout the New England states, upper and western New York, Western Pennsylvania, and Ohio. The third salesman covered Philadelphia, Baltimore, and the southeastern states. Except for the merchandise sold through New York City buying offices, the company had no distribution west of Ohio and did not cover Texas or Louisiana. Total sales were in the neighborhood of $1,700,000 a year.

Although the company had used the brand name "Bridget" all the time it had been in the mop business, Mr. Dow was convinced that the name had little or no influence on sales. He believed that his company's business depended on its following a policy of competitive pricing, and on its obtaining preferential display at retail outlets through the judicious use of advertising allowances. Although Lawton's merchandise was sold through about 2,500 retail outlets, the sales through the New York City buying offices accounted for a substantial part of the company's volume.

One New York City department store had allowed Lawton to put

in an experimental inventory of the new type of mop on a consignment basis. The company paid for fifteen column inches of advertising in the department store's usual Sunday advertisement in one of the New York newspapers. Mr. Dow had spent several days in the house furnishings department of the store to see the consumer reaction to the new mop. Conventional household mops were selling at from 79¢ to $1.49, whereas the new mop was priced at $2.50.

On the Monday following the appearance of the advertisement, several dozen customers asked about the new mop, but only a few purchased it when they saw it on display. During the following two days, Mr. Dow and one of the regular saleswomen in the department both concentrated on explaining the mop, frequently demonstrating it. During that two-day period, 159 mops were sold. During the week following Mr. Dow's own experimental sales work in the department, only 28 mops were sold, and during the next week, only seven mops were sold.

It seemed obvious to Mr. Dow that extensive advertising and store demonstration would be necessary to introduce the plastic mop through department stores, and he was doubtful if the eventual market would repay the introductory costs.

Because he felt that the consumer market might be too expensive to attempt to develop, Mr. Dow investigated the industrial and commercial market for mops. He found that retail establishments, office buildings, hospitals, schools, and light manufacturing establishments used large quantities of mops. Mops for commercial use were considerably heavier and longer than mops used in the household and were usually made of long fiber Sea Isle cotton. Commercial users typically purchased from janitor supply firms, buying several dozen mops at a time, and often paying between 75¢ and a dollar a mop.

Interviews with representative janitor supply firms indicated that they were not equipped to do an aggressive selling job to introduce a new and different product, but that they would stock the new plastic mop if there were a demand for it from their regular customers. Mr. Dow called on a number of maintenance managers of large commercial buildings, and in each case, left a half dozen mops for experimental use. At the end of sixty days, Mr. Dow called back on the maintenance managers who had had a chance to use the mops. In a majority of cases, he found them enthusiastic about the new mop and willing to specify his brand when ordering.

Although this reception was encouraging, Mr. Dow realized that it would be necessary to do an intensive selling job on maintenance managers in each city before he could count on getting distribution through janitor supply houses; also the introductory costs would be heavy in proportion to his financial resources. He believed that he could sell the plastic mop for commercial use at an introductory price of $1.77, allowing janitor supply houses a gross margin of 33⅓ per cent.

He was sure that he could not finance the introduction of the plastic mop into the consumer and the commercial markets simultaneously and would have to decide on one of these two markets.

Analysis of Lawton Mop Company

Our first step will be, of course, the determination of the main issue which constitutes the Lawton Company's basic problem. We can list several important considerations:

1. Should the company add the new mop to its line of products?
2. Should it select the consumer or the industrial market to develop?
3. What method or methods of sales promotion could the company use to reveal desirable product characteristics which were not apparent to anyone who had not previously used the product?
4. What method of sales organization should be established to accomplish the distribution of the new mop?

Which of these four questions constitutes the basic or main issue? In the first place, we shall rule out the first question. Presumably, Mr. Dow has already made the decision to attempt to expand the company's business through the addition of new or improved items into his line of products; we shall, therefore, accept the assumptions that expansion of line is desirable and that the product characteristics of the new mop are sufficiently desirable to make it a good product to add, if a way can be found to sell it.

There is doubt that the second question can be answered inde-

pendently, because the answer to it depends, in part, on the answer to the third question. It makes little difference whether the consumer market is, or is not, theoretically attractive if no feasible way can be found to sell the new mop. Much the same train of thought will rule out the fourth question: Before sales organization or channels of distribution can be considered, the second and third questions must be disposed of.

Possibly we should question Mr. Dow's belief that the company could not develop both markets simultaneously. Certainly, a major expenditure in each market at the same time might be unwise. But possibly we should keep alert to see to what degree there is need for major expenditures.

We may assume that there exists a relatively large market for mops both for residential and for commercial use. We have accepted the assumption that the mop in question is superior and, in the long run, more economical. We know that there already exist channels of distribution for mops for each market. We arrive, almost by a process of elimination, at the question of whether Lawton can find efficient and economical sales promotional methods (interpreting the term *sales promotional* in the broadest sense) to reach either market—our basic issue.

We have several important pieces of information given in the case itself. We know that the mop does not sell well merely on the basis of point-of-purchase advertising or display in retail outlets. But when the mop is adequately demonstrated, it does sell reasonably well. Those of us who have observed merchandise displays in housewares departments of department stores will realize that other new, and sometimes fairly complicated, mops have been sold in department stores merely on the basis of display and point-of-purchase advertising. We may, therefore, accept the assumption indicated in the case, that it is the unattractive appearance of this particular mop which stands in the way of consumer acceptance when it is merely displayed.

Two other facts can be taken into consideration. There is a high seasonality in consumer purchases of mops—the peak periods coming at the conventional housecleaning seasons in the

spring and fall. We can also find out that mop sticks (in which rags are clamped for mopping) sell for from 39¢ to 79¢ and account for a large part of the mop sales.

We can wonder whether the increasing use of hardwood floors, which are typically not wet-mopped, and the increasing use of wall-to-wall carpeting may have decreased consumer interest in mops.

From the standpoint of the commercial or industrial market, we know that the mop does not spontaneously recommend itself to maintenance superintendents, but that they favor it after they have tried it and have found that it increases production by moppers and that it endures more hours of use.

On the basis of these fragments of knowledge, and these plausible assumptions, what kind of a commentary can we write? The following commentary will show how such information, subjected to logical treatment, can be put together.

Commentary on the Case of the Lawton Mop Company

The major question is whether the Lawton Mop Company can find an efficient sales promotional method to reach the industrial or the consumer market. The fact that the mop does not display well and requires demonstration for consumer acceptance suggests that an immediate development of the consumer market is not likely. It must be remembered that the sale of mops is seasonal, and that housewives may not regard a mop as a particularly important item of household equipment. A new type of mop may not be "just what the housewife is looking for."

It is likely that persistent consumer advertising over a period of several years would gain an entry into homes for the plastic mop. But such an approach is not an immediate answer to the company's need for expansion. Moreover, in the absence of any consumer interest, it is probable that retail outlets would be reluctant to stock the mop.

On the other hand, the commercial market does not depend

on the display attractiveness of the mop, but instead, on its demonstrated efficiency. It would be possible for one salesman, over a period of several months, to cover major commercial users in several large cities, leaving a few mops for experimental use with each call. If the mop performed as well as it had in the original tests in actual subsequent commercial use, it would be easy for the salesman to obtain a large enough number of valid orders to command distribution through janitor supply firms in these several cities.

An inexpensive schedule of advertising in several appropriate trade journals and the judicious use of direct mail would aid in broadening the market. Even using only one salesman, the Lawton Company could develop its commercial market city by city. Adding one or two more salesmen would speed the process but would not change the nature of the approach to the commercial market. And though this approach would not offer quick profits, it would avoid expensive risk. It is a plan which could be implemented with little or no modification of the executive organization of the company because the supervision of one to three additional salesmen would not require the employment of an additional sales executive.

The fact that Lawton made such a piecemeal approach to the commercial market would not preclude a gradual development of the consumer market. The launching of a small-space campaign in consumer magazines of interest to home-makers (for example, *Better Homes and Gardens, American Home,* and *Sunset*) and the enclosure of reprints of such advertising with direct mail circulars to housewares buyers of department stores and mail order firms would slowly open up some part of the consumer market at a cost which Lawton could afford. When the mop was paying its way in the commercial market, the company might then consider a more intensive cultivation of the consumer market.

A marketing principle which can be adduced from the consideration of the Lawton Company case is that aggressive sales

support cannot be expected from retailers unless a product can find a ready consumer market.

* * *

It will occur to the student at once that the dominant characteristic of the commentary just quoted is its reasonableness. No rabbits are pulled out of hats, and no marketing miracles are suggested. The advice given in the commentary is advice that the student would be willing to follow if his own money were at stake! Moreover, the commentary recognizes the fact that marketing decisions are not choices between black and white, but distinctions between shades of gray.

One of the tests the student should make of his own thinking and of his conclusions or recommendations on each case is the question: *If I were a marketing consultant called in to give advice in this instance, is the recommendation I make reasonable enough and convincing enough to be worth a consultant's fee?*

Attributes of Cases

The fact that an issue or problem must be implicit in each case indicates the essential characteristic of the type of case which is suitable for instructional purposes. It does not make a great deal of difference whether the events related by a case are recent or not, so long as the problem presented is typical of current marketing problems. A case involving a question of discriminatory discounts among competing retailers—no matter how current the events happened to be—would no longer be a useful case because the Robinson-Patman Act has made such discriminatory discounts illegal. On the other hand, a statement of the conditions and thinking which led to the establishment of a five-dollar price for Gillette Razors nearly two generations ago would be a suitable case today, because the problem is one which still confronts many manufacturers of specialty merchandise.

Another attribute that the cases must have is conformity to actual conditions. Business is so complex and influencing factors

are so multifarious that it is extremely difficult to "invent" a case which will be useful for instruction. Names of firms may be changed; the problem may be set in a similar industry, or a similar product may be used in place of the one around which the events related actually took place; occasionally, even, the experience of two firms may be merged in the narrative of a case. But apparently the instructional case must present actual happenings from the world of business.

Sometimes it is necessary to disguise the identity of the company in order to avoid revealing intimate information or thinking which might be useful to its competitors. But there is an even more important reason for the use of fictitious company identities for some types of problems. There is a presumption in the minds of most people that a large, widely known, and highly successful and profitable company is not as likely to make mistakes as is a small and unknown firm. Thus, if General Electric, du Pont, General Motors, or another industrial giant follows a particular policy, there is a presumption that the policy must be good. As executives of such firms will readily agree, this presumption is too flattering. Some of the cases in the present volume reflect the problems, and—occasionally—the mistakes of large and successful firms. But for the greater part, it has been thought wise to disguise the identities of such firms so that the student will not let his respect for their success overshadow his analysis and judgment.

Studying marketing under the case method may be confusing and difficult at the beginning. But it will be highly fruitful for the student who is willing to accept intellectual responsibility, to learn to stand on his own feet, to make his own analysis, and to defend that analysis.

CHAPTER THREE

The Nature of Marketing

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

Because marketing is a continuous process, it is difficult to select one particular assortment of activities which can be regarded as synonymous with the general term "marketing." At first glance, there appears very little similarity between the marketing of Kansas wheat and the marketing of toothpaste. In the first place, the wheat is produced by many farmers, each offering a relatively small part of the total supply. Grown under conditions of varying soils and varying agricultural skill, the quality of wheat may range widely. From the standpoint of the farmer, the marketing process stops when the wheat is bought by a miller for use as a raw material.

On the other hand, toothpaste will be manufactured under careful controls so that uniform tubes are filled with identical

quantities of highly standardized dentifrice. From the viewpoint of the drug manufacturer, marketing is complete not when a few large wholesale firms buy toothpaste for resale, but when hundreds of thousands of consumers located throughout the United States have purchased tubes for consumption.

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

Marketing Functions

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

I. Physical functions:

Gathering or assembling; standardization and grading; packing; storing; transportation.

II. Financial or commercial functions:

Financing; risk bearing; pricing; allocation; transfer of title.

III. Selling functions:

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

Different Emphasis on Functions

It is clear that different products will require different emphasis among these several marketing functions—depending primarily on the character of the demand. Thus, in the case of agricultural products such as wheat or cotton, no demand needs to be stimulated by the grower, for the commodities flow almost automatically through a series of pre-established marketing mechanisms. On the other hand, manufactured and branded merchandise enjoys no such advantages, and will flow to consumption only if demand is stimulated.

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

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

Raw Materials Compared to Manufactured Goods

In marketing cotton, little attempt is made at demand stimulation, and virtually none *can* be made on behalf of a particular

cotton farmer. A broad market for cotton exists, and an elaborate pricing and distribution system exists for the crop as a whole. Cotton of a given length of staple is, practically speaking, interchangeable. Each farmer contributes so little to the aggregate supply that he cannot appreciably influence demand, price, or methods of marketing. This almost automatic flow through preestablished marketing mechanisms virtually precludes the application of initiative by the producer.

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

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

Industrial Marketing and Consumer Marketing

There is often said to be a major difference between industrial marketing and consumer marketing. In the first case, goods (and services) are sold to business establishments for processing, or for the use in or facilitation of processing, of other goods which will then be marketed. In the second case, the goods are sold to consumers who will use up or destroy them in the act of consumption. With industrial goods, quantities dealt in are expected to be larger, and buying motives more nearly rational.

With consumer goods, quantities are likely to be small, possibly in units, and buying motives are likely to be emotional because the goods are purchased to give personal satisfaction.

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

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

Performance of Functions

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

Guide Questions

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

First, does the product satisfy a human want, realized or latent?

Second, is the product itself adjusted to meet this want—in its form, in its size or quantity, in its packaging, and in its price?

Third, can channels of distribution be selected which will make the product available to consumers (industrial or ultimate) conveniently, efficiently, and economically?

Fourth, can demand be stimulated so that an adequate market will support the marketing effort?

1 JOHN SMITH

Selecting a Major Field of Emphasis

John Smith was a sophomore in his second semester at the School of Business Administration of Ajax University, which was located in a large eastern city. Because the School of Business Administration was only two blocks from the main business district, the students had excellent opportunities to contact business executives in the area.

John was the oldest of three boys. His home was in Newton, about two hundred miles from the University. His father was a foreman in a shoe factory and quite active in church and civic affairs. Although neither Mr. Smith, Sr., nor his wife had a college education, they had both graduated from high school. When the children were still quite young, their parents had taken out endowment policies so that each boy would have $1,500 when he became eighteen years old.

Mrs. Smith was a member of the Parent Teachers Association, an officer in the Ladies of Charity, and had served as the Red Cross and Community Chest representative for her district in Newton during the past four years.

John had always lived in Newton and had never been away from home for any length of time until he entered the University. During his grade school and high school days, he participated in a number of extra-curricular activities. He had been his room representative for four years in high school, had been captain of his grade school baseball team, and had won two letters in football and baseball in high

school. He had been a boy scout for four years and had served as chairman of a number of the important social functions at Newton High.

Because of the modest income of his father, it had been necessary for John to earn his own spending money. During his last three years in grade school, he had a newspaper route. While a student in high school he held a variety of jobs, such as clerking in a grocery store, working on a subscription campaign for a national magazine, driving a truck, and selling advertising for the *Newton Daily News.*

John's academic record in high school was such that his B average placed him in the upper third of his graduating class. John did well in Mathematics, English, and Social Studies but received C grades in his physics and chemistry courses.

Mr. and Mrs. Smith had hoped that John would become a doctor. However, after discussing the matter with the high school counselor and his other teachers, John decided his interest in science was not great enough to warrant his studying for that profession. His high school teachers recommended that he enroll in the School of Business Administration, and John decided to follow their advice.

On the Educational Testing Service examination at Ajax University, which all entering freshmen were required to take, John's scores were as follows:

	John's Score	*National Average*
A.C.E. Psychological	121	105
English Expression	59	56
Speed of Comprehension	58	56
Reading Comprehension	58	57
Social Studies	71	58
Natural Sciences	59	57
Mathematics	60	57

On the Interest Test, John ranked highest in the Business Field and received A and B marks in all these sections.

It was necessary for John to hold a part-time job in order to earn enough money to remain in school. In his freshman year, he had waited on tables at a fraternity house and in the current sophomore year, he worked fifteen hours each week in one of the department stores.

John maintained a B average and was one of the twenty-five student representatives of his class. He attended as many of the social affairs as his finances would allow and was well liked by both the

faculty and the members of the student body. Indicative of this is the statement that was to appear under his picture in the Year Book —"John Smith is the kind of fellow you would be proud to take home and introduce to your family."

During the freshman and sophomore years in the School of Business Administration of Ajax University, extreme specialization was not the aim of the College. Rather, the student was well trained in the fundamentals of Economics, English, Mathematics, History, and Accounting so that upon selection of a major field of emphasis in his junior year, he was well prepared and qualified to analyze and to study the technical and specialized problems of business.

The fields of concentration in the School of Business Administration were: Accounting, Economics, Finance, Industrial Management, Insurance, Marketing, and Statistics. In February of each year, the Dean sent a directive to all sophomores in which he gave some information about the general requirements and opportunities of the various majors.

The sophomores were also assigned to faculty advisors. One of the important functions of the advisors was to help the students select their field of concentration. The decision as to the area of emphasis had to be made prior to April 15.

John had narrowed his choice to either the field of accounting or the field of marketing. His advisor recommended that he consult with the chairman of each of these departments to determine what the opportunities were and for which major his qualifications were better suited.

The chairman of the Accounting Department, Professor Anderson, emphasized that accounting presented possibilities for earnings fully equal to those offered in law, medicine, engineering, or any other profession. What is more, the field is relatively young and not yet crowded.

Accounting does not offer "soft jobs." It sets high standards of integrity and industry. But any man who shows aptitude for it and who adds to the necessary training the qualities of initiative, ability, and leadership will have unusual opportunities to win recognition.

Professor Anderson explained that, regardless of the size of a business, accounting records play an important part in its operation. He explained the need for accountants in commercial, industrial, utility, financial, governmental, and other types of institutions. Public ac-

counting also offered excellent opportunities, and the students from Ajax University had been very successful on the Certified Public Accounting Examination.

Professor Anderson informed John that the starting salary for his graduates had averaged $325 a month and that there was no difficulty in placing any of his students.

After receiving this information from Professor Anderson, John made an appointment with the Chairman of the Marketing Department to find out what the opportunities were for the students who selected that major.

QUESTIONS

1. What types of careers are opened to graduates who take a general marketing major?
2. How important is marketing in the economy?
3. How many people are employed in marketing, and what are the earnings of this group?
4. Is the number of people engaged in marketing increasing more rapidly than the number engaged in production?
5. What special aptitudes does a person need to succeed in a career in marketing?
6. Are the starting salaries as high as they are in accounting, management, and the other areas of specialization?
7. What is the demand for graduates who major in marketing?

2 GENERAL ELECTRIC COMPANY *

Marketing Men Assume Important Position

Engineers were the fair-haired boys in the early days of the General Electric Company. For awhile afterwards, G.E. production men were the standouts. There have been times when lawyers and financiers were on top. But in 1950, the G.E. marketing men recorded the top position.

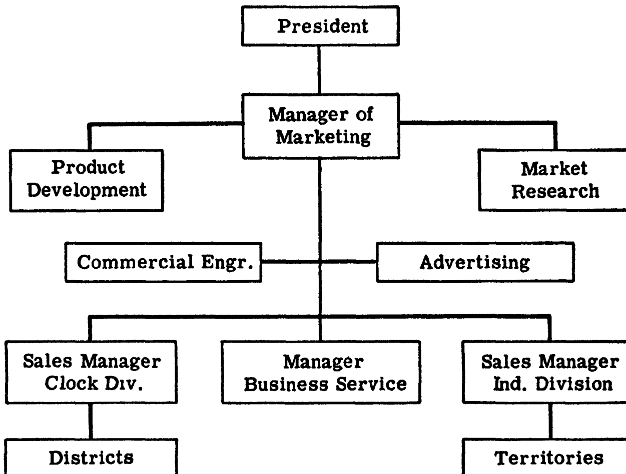
Much of their strength has been gained from a new concept developed in the past few years. Starting in 1947, a new marketing approach was adopted in G.E.'s affiliated companies. Other G.E.

* "Marketing Men Take Over at General Electric," *Business Week*, June 24, 1950, pp. 30-32.

departments began to take it up, and today it is almost company-wide.

The key to the entire program is the new marketing guide. It spells out the scope, functions, and procedures to be followed by marketing departments of the company. But it does more than that. It widens the boundaries of those departments, narrows boundaries of other divisions. It brings the marketing manager into the limelight and it brings into being the marketing-manager plan of organization.

GENERAL ELECTRIC COMPANY
Telechron Division
Organizational Chart



Top executives realized that they had supplied engineering, finance, and production management with a standard of practice built upon years of experience. They felt the need of supplying the same service to marketing. By doing so, they expected to get more effective coordination between various company units in the matter of marketing policy.

G.E.'s study resulted in adoption of the marketing-manager plan. At the head of the department is the marketing manager. He is a different breed from the sales manager. He is more analytical, his background is broader. He is inclined to put more emphasis on detailed sales planning control of marketing methods, and study of the market. But, he isn't just a market researcher.

This new kind of marketing manager, however, has other areas of operation and responsibility outside the usual sphere of marketing. He is responsible for:

1. Planning products
2. Making production scheduling requests
3. Controlling finished-goods inventory.

The marketing manager also looks after pricing for profit, terms of sale and discounts, advertising and sales promotion, product and marketing services.

What makes this marketing-manager setup revolutionary is inclusion of activities usually handled by other parts of a business organization. Product planning, for example.

The product-planning manager is one of the key men working directly under the marketing manager. He and his staff have the last word on appearance design of the product. This isn't a manufacturing or engineering decision anymore. Naturally, engineering and manufacturing problems and ideas are taken into account. The product-planning manager knows that he can't clutter up the line with special models that call for costly, short-run production. But the marketing department has final responsibility.

Marketing research is used to determine consumer preferences on appearance. Continuous study ensures that the products being made are satisfying users' demands and meeting competition. Thus, the product planners concern themselves with development and styling of new lines, as well as additional sizes and varieties, improvement, and restyling in existing lines.

The second revolutionary element is production scheduling. Under the old system, in hard selling times the sales manager used to tell the production boss, "You guys produced more than we could sell." Or, if sales were clicking, "Why couldn't you make more of these?" Now that type of buck-passing is passé. The marketing manager has to decide how many items will be sold and, therefore, how many should be made.

When he plans the requirements schedule, the marketing manager consults six sources of information: sales records, warehouse stock reports, distributor and dealer stock reports, marketing research, product managers, and the engineering development schedule.

After deciding how much to produce, the marketing manager then works with the manufacturing division to get production lined up

and ready to go. There has to be some give-and-take when the manufacturing boss knows he's having trouble getting necessary raw materials or components.

Closely tied to the production-schedule problem is the one of control over finished-goods inventory. Again the marketing division is in charge. It draws in existing inventory reports and sales-trends data from the factory, warehouses, and key distributors. That information enables it to alter production schedules as the marketing picture changes. It is then possible to minimize wide inventory swings.

Those who have worked with the new setup in G.E. believe they have hit upon the answer to a lot of problems never licked in the past. The sales manager can devote his time to selling, which is his natural function anyway. The production or factory manager is glad to be out of the guessing game on production volume, and he's happy to see that chore pushed off on the marketing department.

QUESTIONS

1. Why have the marketing executives reached the top positions in the General Electric Company?
2. Will the organizational plan which the General Electric Company has adopted be one that other firms will likely follow in their reorganizational progress? Would it make any difference if it were a small or large firm which was being studied?
3. Should the engineering or marketing executive be the one to determine what products should be produced?
4. Why does the marketing executive have the final decision in marking up production schedules?
5. Do you believe that the emphasis on marketing will become greater or less during the next decade?

3 MRS. BERNATHA COBDEN

Deciding on a Marketing Approach

Confronted with the need for making a living after the death of her husband, Mrs. Bernatha Cobden undertook to develop a catering business for church groups and women's clubs in the vicinity of

Santa Ana, California. From 1944 to 1946, she was kept reasonably busy and was able to make a modest living. But in the latter part of 1946, a new, attractive restaurant was opened on a highway leading to Santa Ana, and a number of her customers began to hold organization dinners there. As a result, she was forced to look for some other method of supplementing her income.

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

Early in 1947, she bought a supply of two-ounce glass containers and made up small quantities of marmalade to see whether she could sell them profitably. As a result of her own calls on various kinds of stores in and around Santa Ana, she found that she could get several gift shops and several stores selling souvenir merchandise to tourists in Santa Ana and in Laguna Beach to stock small quantities of marmalade on consignment. With a retail price of fifty cents a jar and a 40 per cent margin for retailers, she was able to clear ten cents a jar over her costs of materials, fuel, and the wages of one woman hired on a part-time basis. This margin of ten cents included compensation for her own work in preparing and selling the marmalade, and her profit. During 1947, although her accounting methods were not exact enough to determine accurate results, it appeared that she had broken even. During 1948, she earned $347.

At the beginning of 1949, she offered the marmalade not only in single two-ounce jars but also in attractive but inexpensive redwood boxes containing three two-ounce jars at $1.75. Her total revenue above costs for that year was $463, and about 40 per cent of her volume was accounted for by the boxes of three jars.

The individual jars had merely a decorative top with no other information than that required by law. But the redwood boxes were labeled "Cobden's California Conserve" and carried her Santa Ana address. During 1950, she began to get mail orders from various parts of the United States, chiefly before Mother's Day, Thanksgiving, and

Christmas. As a result largely of the mail orders, her revenue for the year increased to $793.

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

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

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

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

QUESTIONS

1. Would the demand for Mrs. Cobden's marmalade be limited primarily to the category of a gift and holiday item? Are there other potential demands which might be profitable?
2. What would be the important basic factor which would determine Mrs. Cobden's approach to the marketing of her product?

3. Do you believe Mrs. Cobden should attempt direct distribution of the marmalade? If not, would food brokers serve as satisfactory outlets?
4. From the information in the case, does it appear that there is an adequate demand for this product? How significant is the fact that she has received unsolicited mail orders?
5. What are some of the major marketing problems which Mrs. Cobden must solve?
6. How important is the fact that Mrs. Cobden has developed a superior product?
7. What marketing procedures would you recommend?

4 CARLSON LOCK COMPANY (A)

A Variety of Marketing Problems Faced by a Manufacturer

The Carlson Lock Company manufactures a wide line of residential and industrial door locks, handles, and associated hardware. Carlson locks served as the yardstick of quality for the cylindrical lock industry.

Although Carlson's hold on the heavy-duty industrial market seemed secure, competition developed for the cylindrical line of locks for the residential market. National Hardware introduced a new cylindrical line of locks in both Locktone and Scriber in 1951 and had an increase in sales of 34.1 per cent. Keenset, which entered the market by using price appeals for its cylindrical locks, loomed as the largest competitor for the Carlson Company.

Keenset Locks, Inc., began producing locks about 1947, and by turning out a satisfactory lock at a lower price than Carlson and the other lock manufacturers, considered by 1951 one of the five largest producers of locks in the United States.

The Keenset lock, comparable to the Carlson Y-type lock for residences is a die-cast job and sells for $6.45. Carlson wafer construction, which is an all-steel lock, sells for $7.45 in the wafer type and $11.45 in the 5-pin tumbler construction. The new Keenset lock, a 6-pin tumbler construction, sells for about $9.75, which is considerably under Carlson's 5-pin tumbler lock in the Y line. (A 5-pin construction is capable of 1,024 different combinations, and a 6-pin

construction will give 262,000 different variations of master key combinations.)

Because of the prohibitive costs of building, the day of the individual architect-designed home is passing. In the first quarter of 1953, 77 per cent of the homes were constructed by operative builders. This percentage has increased considerably. The trend toward development housing means that the residential housing industry has become big business, and the materials going into the houses are chosen because they meet the minimum standards and allow a great profit per house.

Distribution

Carlson sells primarily to hardware dealers and ship-building concerns through its sales force of forty-five salesmen. Approximately 1,500 active accounts are serviced through its offices in Jersey City, New York City, Chicago, Los Angeles, and San Francisco. A sizeable export business is also transacted with Central and South American countries, the Dutch East Indies, and other countries.

Lock Market

According to F. W. Dodge figures, there was a market of over 10 million units of locks in 1953. This figure was based on the new construction market because it is not possible to estimate the replacement market with any degree of accuracy. The extent of the lock market was estimated by taking the figure of floor space going into all classes of nonresidential and residential building and then utilizing a conversion figure on the number of doors per square feet of floor area.

Eleven per cent of the total lock market in units was in the field of nonresidential building. Eighty-nine per cent was in residential building; 72.5 per cent of the total residential unit lock market lay in one- and two-family dwellings.

It is estimated that by 1961 annual construction will have risen to $35.9 billion and that residential construction will account for over $14 billion of that total. Upwards of one million residental starts per year are predicted for the next few years.

The Residential Field

Surveys show a lag in home selling, particularly in the higher brackets, that is, houses selling for over $18,000. In these brackets the public has become more particular about quality, especially finishing and detailing. Because Carlson serves as the yardstick of quality for the cylindrical lock industry, the company believes that it will be able to maintain this market. People who want to buy these homes are more discriminating, and builders are more prone to accept the selling help of established, quality lines in hardware, plumbing, heating, and kitchen equipment.

On the other hand, the tract builders will not use Carlson locks unless they can be shown that these locks will definitely help sell their houses. Price is becoming more and more a factor. This was pointed out by the purchasing agent for a large developer, which builds homes in three price brackets: $12,500 to $16,000; $18,500 to $22,500; and $25,000 to $45,000.

He said, "All homes, even the $45,000 homes, are speculative construction. We build to the extent of five hundred homes a year. In addition, we are one of the few residential tract builders employing regular architects to plan our developments.

"We use Keenset locks on the basis of price, ease of installation, appearance, and the fact that in all of our experiences the locks have been holding up. It would cost us about $70 more per house to put in Carlson instead of Keenset. We have not encountered any complaints from occupants about the locks."

Another residential builder stated, "We can only afford to put a maximum of $60 into the locks we use in our tract homes. We are building homes in the $9,000 to $12,500 price range and as you can realize, price is the big factor. We can't afford Carlson. We build about six hundred homes a year and, as a result, we use Keenset and Beslock."

Other tract builders emphasized these same factors. Although they were aware that Carlson was a quality lock and although a number of purchasers had requested that Carlson locks be installed on exterior doors, they felt that persons inspecting a home are generally not very observant when it comes to hardware.

QUESTIONS

1. What person influences the kind of hardware which will be used in residential homes?
2. Can the consumer be made so conscious of locks through advertising that he will insist on a given brand being used in his home? How important is quality to the consumer?
3. Since the architect will usually specify the hardware to be used in a home unless the client has a particular preference, how important is it for Carlson to work closely with architects in order to get their locks in the tract homes?
4. Should Carlson produce a lower price lock which would compete with Keenset? (This lock would have to be of a lower quality.) Should Carlson use the same brand name on this lock in the event the company decides to go ahead with it?
5. Would it be better for Carlson to produce locks primarily for the industrial and the more expensive residential home market and to limit its effort in the tract market?
6. Do you believe the home buyer looks upon the locks and the other hardware in his home as he would upon the jewelry of a smartly dressed woman?

5 SURE-PLOW COMPANY

A Plan to Circumvent the Wholesaler

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

Sales of the company have not increased for the past five years, and for the current fiscal year it appears that sales will be about 2 per cent less than last year. As a result, the company has decided to evaluate its distribution policy to determine whether or not it would be more profitable to sell direct to retail outlets throughout the agricultural areas of the United States.

The line of plows sold by Sure-Plow is competitive to a similar

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

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

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

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

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

In attempting to reach a conclusion as to the future demand for

agricultural equipment, the sales manager has made a study of some of the more important business trends. As a result of his analysis, he has prepared a report in which he recommends changes in the distribution policies.

Sales Manager's Report

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

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

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

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

For Sure-Plow to meet the increasing demand for agricultural equipment, it is important that we discontinue selling our plows

through wholesale distributors. Although this change in policy will necessitate an immediate financial outlay, we should be able to derive benefits from it within a relatively short period of time.

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

In each of these branches, we should have a sales manager, who will be in charge of the territory, and one or two salesmen, besides the clerical and service help which local conditions may demand. We believe that the 20 per cent allowance which Sure-Plow gives to the distributors will be more than adequate to cover the expenses of having our own sales and distribution outlets.

QUESTIONS

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

CHAPTER FOUR

The Consumer

Because the purpose of production is consumption, it is the consumer and the consumer's welfare which constitute the ultimate "good" in marketing. On the other hand, in our free-enterprise capitalistic economy, the hope of profit motivates the businessman. Many people are convinced that these two statements set up a conflict; that the businessman, motivated by the prospect of profit, will relentlessly disregard the consumer interest.

Protection of Consumer

This concern for the consumer's welfare has taken the fòrm of the "consumer movement," a loose grouping together of various people and organizations to bring about a greater degree of protection for the consumer—who is unorganized, often ill-informed, and frequently without purpose or direction. Much of the agitation by this group has been directly for legislation on behalf of the consumer.

It would be naive to assume that all businessmen are altruistic and virtuous. Much of the legislation which protects the con-

sumer from adulterated and harmful products has been important to our public interest. The pure food and drugs legislation, both national and state, has afforded protection in areas in which the consumer is particularly defenseless, and in which a small number of unscrupulous firms can cause great damage. Other legislation, such as the Wool Products Labeling Act, gives the consumer protection that he cannot himself provide, however vigilant and discriminating he may be. A majority of businessmen welcome such legislation, not only because it does afford the protection that the consumer needs, but also because it curbs their unethical competitors.

A more extreme group, however, feels not only that the consumer needs protection from the ills that he cannot determine or foresee, but also that he needs guidance in getting his money's worth. Implicit in this "Lo, the poor consumer" train of thought is the feeling that the consumer is somewhat victimized by advertising and sales promotion, and is, therefore, cajoled into buying more than he needs, into buying goods that merely pander to his whims, and into buying merchandise that is poor in quality and that is in poor taste.

Variations in Demand

We should be particularly careful to avoid attempting to project our own value-judgments into criteria for the guidance of others. Some families prefer to live in inadequate quarters in order to be able to drive expensive automobiles. Some families prefer to eat frequently in expensive restaurants instead of maintaining insurance programs. Some families prefer watching television programs to buying uplifting books. But each family has made a free choice in favor of those expenditures and those gratifications which please it most. The concept of "plain living and high thinking" is pre-eminently suitable for those who are attracted to it, but is not to be forced on others. It is impossible to designate one person's consumption pattern as foolish and another's as sensible.

Muslin bed sheets cost less and will last longer than percale sheets. Cheaper cuts of meat are as nutritious as expensive cuts. Interlined cloth coats keep women just as warm as fur coats do. These and a hundred similar statements may be true, but they are not necessarily enlightening. Each individual must draw up his own calculus of values—which may weight pride and pleasure more heavily than frugality.

The attempt to guide the consumer in getting his money's worth is more often than not an attempt to project someone else's set of values. The housewife who prefers a flamboyant lamp shade enjoys having it—however inappropriate it may seem to someone else of more sober taste. And it is into her house that the lamp shade goes.

Importance of Freedom of Choice

There is no immutability about taste. Complete freedom of consumer choice is far more important socially and economically than is conformity to one set of criteria. What is waste for one is wisdom for another.

Another point must be made. We live in a competitive economy. Business prospers as it offers consumers what they want. The firms that most nearly do so are the firms that succeed most bountifully. When companies vie with each other to meet the public taste, no agency is needed to help the consumer get what he wants. So long as consumer protection is confined to shielding the consumer from dangers that he himself cannot foresee or avoid, and to the enforcement of contracts and the curtailment of fraud and deception, competition will enforce the meeting of the consumer's wishes with respect to variety, quantity, and quality of goods and services.

6 THE DANTA VILLANOVA GLASS CORPORATION

Changing a Product to Meet the Demands of the Consumers

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

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

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

1. Villanova "wool" products, used for thermal insulation and acoustical applications.

2. Villanova textile products, consisting of strands, yarns, and cords, used by other companies in the manufacture of electrical insulation and decorative and industrial fabrics.

3. Villanova Sealor, an extremely light-weight wool product used in heating, air conditioning, and ventilating and in industrial processes.

4. Villanova mat products, consisting of porous sheets used principally in the manufacture of storage batteries and as a protective wrapping for underground pipes.

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

One of the products which the company manufactures from Villanova "wool" is Acoustical Tile. The panels are cut into blocks 12 inches square and ¾ of an inch thick. Any color can be put on the face of the tile through a special process.

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

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

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

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

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

QUESTIONS

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

7 MRS. ETHEL AGNEW

Evaluating the Rights of a Consumer

Last month, a follow-up man of the Del Portrait Studio delivered to Mrs. Ethel Agnew of Springfield, Massachusetts, a picture of her little girl. The picture was presented in an unusual convex frame, and the salesman informed her that the price of the frame was twenty dollars.

Mrs. Agnew had taken advantage of an attractive offer made to her several weeks before, and was quite shocked to learn that she was supposed to purchase a frame. The offer which she had accepted was written in the following manner:

Del Portrait Studio
Chicago, Illinois

By paying our representative $2.95 for this Certificate, the undersigned will receive one of our $20.00 HIGH-GRADE PAINTINGS in the most pleasing size and in the NEWEST DESIGN, same as painting shown.

This extraordinary offer is made for advertising purposes only, to introduce paintings of a higher grade, hand-finished by a talented artist; therefore, to assure us of a lasting advertisement, this offer is conditional in that the painting must be framed within a reasonable length of time.

Our field artist will call on you with a sketch of your photograph to get full particulars for finishing; at that time, Del's mountings of the newest design will be submitted for your selection. In the event a mounting is not selected, the sketch will be left with you until you select a

mounting elsewhere; then the painting will be finished at no additional cost. Countermands not accepted. Verbal agreements not recognized.

ALL PHOTOGRAPHS RETURNED
WITH FINISHED PAINTING

ALL WORK STRICTLY GUARANTEED

THIS OFFER CANNOT BE EXTENDED
FUTURE PRICE $20.00 AND UP

FORM OF CERTIFICATE

To introduce Del portraiture.

This certificate entitles M_____________ to one Del portrait, 10 by 16 inches, finished in color. This offer is conditional in that a certificate holder must purchase from us the frame for this portrait.

Our representative will visit you shortly to demonstrate the black and white outline which is used as a base for the portrait. He will also show a finished Del portrait and a very fine assortment of appropriate frames for your selection. A deposit of approximately one-half of the purchase price will be required at that time, the balance to be paid on delivery of frame and portrait.

Your original photograph will be carefully handled and returned to you promptly.

Del Portrait Studio

By_____________________

When Mrs. Agnew insisted that she had not ordered a frame, the salesman showed her the above contract which stated, "This offer is conditional in that a certificate holder must purchase from us the frame for this portrait."

He went on to explain that this oil portrait of her daughter would not hold its colors nor would it be of any value unless it was framed. She had agreed to protect and exhibit the portrait, and consequently under the agreement was obligated to purchase a frame.

Mrs. Agnew still hesitated to give the salesman the money. However, when he told her that the frame was gold-plated and contained an unbreakable imported glass front which would make the portrait of her daughter moisture proof, she gave him the twenty dollars.

In the evening, she and her husband examined the portrait very carefully; both of them were disappointed with it and with the frame and decided to ask one of their photographer friends to look at it.

After careful examination, he informed them that the frame was not gold-plated, but was made of wood colored with a yellowish substance which gave the appearance of gold; the glass front was not unbreakable and, in his opinion, was of domestic origin. Furthermore, it was not moisture proof.

He said that the portrait was not produced by hand in oil colors. Rather, it was a quickly made photographic reproduction, colored by powdered pigments which were sprayed on through the use of a mechanical airbrush and compressed air.

He estimated that the tinted photograph probably cost the Del Portrait Studio about $1.30 to make and that the frame was worth about $1.25.

QUESTIONS

1. What action should Mr. and Mrs. Agnew take? Should they report this situation to Del Portrait Studio in Chicago, the Better Business Bureau, or some other agency?
2. Is there any way in which the consumer can protect herself from situations of this nature?
3. Under terms of the contract was Mrs. Agnew obligated to buy a frame from the Del Portrait Studio? Does the fact that the statements in the advertising literature differ from the terms of the contract have any effect upon her obligation to purchase a frame?
4. What could the Federal Trade Commission do in this case?

8 LINCOLN FOUNDATION

Analyzing Changes in the Population

As a result of the First National Conference on Aging, held in September, 1952, the Lincoln Foundation decided to investigate more thoroughly the problems of aging to find out how serious they were. In order to carry out the project, the group asked Dr. D. M. Kramer to give an introductory report on existing conditions.

In his report Dr. Kramer indicated that during the first half of the twentieth century Western civilization had developed around a child-centered world, but that in recent years there has been an increased interest in the problems of the aged. The United States, because it

has been required by voters to become paternalistic, is gradually assuming responsibility for the care of its aged.

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

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

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

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

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

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

In 1900 the average man lived only one or two years after retirement; today he lives about ten years. However, only one-third of the people who reach the age of 65 are able to support themselves and are not dependent upon the earnings of others.

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

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

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

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

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

The many medical problems of old age are being handled as a medical speciality to a considerable extent today. Actually, the prevention of chronic disease during the aging years should begin even before the birth of a child. Although physical health is important, to

enjoy it one must maintain good mental and emotional health as well.

The preventive medical aspects of geriatrics are no different from those of preventive medicine in any other field. They depend upon procedures to obviate chronic disease, early recognition of the condition, and the securing of adequate, prompt treatment and rehabilitation.

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

QUESTIONS

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

9 THE CONSUMER PROTECTIVE GUILD

Handling Advertising Claims

At a time when there appeared to be some increase in price competition in the retail field, a group of merchants in a large midwestern city organized The Consumer Protective Guild, largely to obtain a united front in seeking changes in the city's ordinances. The Guild comprised several department stores, three men's clothing stores selling nationally advertised brands of men's clothing, two

jewelery stores which did not stress credit in their advertising, and several furniture stores handling medium- to high-priced furniture. In the aggregate, these firms accounted for a considerable proportion of the retail volume of consumer durable goods and of soft lines in the city.

The ordinance change they sought would prevent retailers in the city from advertising, directly or by inference, comparative price reductions or savings which could not be substantiated by analysis of their operating expenses by an impartial certified public accountant. In the presentation they made in support of their request, they pointed out the following advertising claims, taken from newspaper advertisements, outdoor advertising, and store signs:

1. "Absolutely no charge for credit." (by a credit jewelry firm)
2. "Our upstairs store costs us less. Walk up one flight and get your share of our rent savings." (by a men's clothing store)
3. "We can sell for less because we spend no money on advertising." (by a chain of furniture stores)
4. "Direct from manufacturer to you—no middleman's profit in our prices." (by a chain of men's clothing stores)
5. "We give you more for your old car." (by a used car dealer)

The Guild maintained that these and similar claims were misleading in that competition forced reasonably uniform operating margins in each classification of retail trade, and that such advertising claims merely tricked consumers into buying inferior merchandise under the assumption that it was of good grade and quality.

QUESTIONS

1. Do you believe the examples of advertising quoted are misleading to the consumer?
2. Should this kind of advertising be allowed?
3. Whose responsibility is it to limit the broad general claims which advertisers will frequently make?
4. Can a consumers' Protective Guild have much influence in controlling such advertising?
5. If you were operating a store in a city where such a Guild was formed, would you become a member of it?
6. Are you in favor of the ordinance change the Guild recommended?

10 OWL BISCUIT COMPANY

Protection of the Consumer

The Owl Biscuit Company was a midwestern manufacturer of cookies, crackers, and cones. It had developed, over a period of twenty years, a highly selective channel of distribution. The company sold direct to restaurants, dairies, confectionary and candy stores, and other similar desirable accounts throughout the midwestern states.

All products were packaged in bulk cartons, and no attempt was made to prepackage any of the items for resale to the ultimate consumer. The company maintained excellent relationships with its accounts and was constantly on the lookout for new ideas to help its customers do a better merchandising job. The salesmanager, Mr. Arthur Jepson, was particularly aware of the importance of good customer relations and encouraged his salesmen to do a complete merchandising job whenever they called on an account.

Every month, Mr. Jepson held a general sales meeting at which he tried to elicit from the salesmen recommendations, suggestions, and ideas which might help increase sales. At the monthly meeting in May, Mr. Alexander, one of the salesmen, had a suggestion which he believed would increase the sale of cones during the summer months. The idea was a simple one and involved the insertion of a paper slip into every tenth cone in each carton; on the paper a statement such as the following would be printed: "This slip entitles the bearer to one free ice cream cone or ten cents at the place where the original cone was purchased."

Mr. Jepson asked the other salesmen to check with their accounts and to be ready to give him their opinions of the idea at the June meeting. The response at the June meeting was so encouraging that Mr. Jepson recommended to the general manager that the company have the paper slips printed and begin inserting them into the cones immediately.

The general manager also thought well of the idea and decided to have the company attorney study the plan to find out if there were any legal restrictions involved. In reviewing the Federal Trade

Commission's decisions, the attorney came across Order 5503, given on November 13, 1948.

On that date, the Federal Trade Commission ordered John E. Haynes, trading as Arkansas Peanut Company, 327 Ouachita Avenue, Hot Springs, Arkansas, to stop using lottery methods in the sale of peanuts or other merchandise.

The findings of the Commission stated that Haynes employed a sales plan involving a lottery scheme in the sale of peanuts. According to the findings, cash ranging from five cents to a dollar was enclosed in a "small number" of the thirty packages of peanuts in each carton. Purchasers of the packages of peanuts procured one of these sums of money "wholly by lot or chance," the findings asserted.

Declaring that the sale of peanuts in this manner is a practice contrary to an established public policy, the Commission ordered Haynes to stop selling any merchandise by means of a game of chance, gift enterprise, or lottery scheme. The order also required Haynes to discontinue the sale of peanuts or other merchandise packed in such a way that distribution to the public may be made by means of lot or chance.

The order was issued with the concurrence of all the Commissioners after consideration of the record, including Haynes' answer in which he admitted all the material allegations of the complaint and waived other procedure.

QUESTIONS

1. Was the decision of the Federal Trade Commission justified in the "peanut" case?
2. Should the Owl Biscuit Company adopt the idea of putting the paper slips into the cones?
3. If the idea is adopted, should any change be made in the printed material?
4. How important is it for the Federal Trade Commission to protect the consumer in matters of this kind?
5. What determines whether or not some action is contrary to established public policy?
6. How does the consumer play a part in forming public policy?

11 GRUEN WATCHES [1]

Results of a Consumers' Report

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

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

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

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

Some of the more significant comments in the report were the following: Because of the very large number of brand names which exist in the watch trade (there are around 3,600 watch names in a

[1] This factual digest is reprinted from the November, 1953, issue of *Consumers' Research Bulletin* by special permission.

recent trade list, watches made or marketed by over two hundred distributors and three American manufacturers), it is wholly out of the question to provide anything even approximating complete coverage of the various makes and qualities of movements.

It is a startling fact little known to the ultimate consumer that to a very large extent the buying of a watch is the buying of a brand name, for a well-known, well-advertised name may add as much as $100 to the price of a watch without adding additional quality. It is also true that for 99 per cent or so of consumers, everything needed in a watch—except perhaps top style, beauty, and exclusiveness of case—can be gotten in watches in the $30 to $50 bracket. (Occasionally a watch priced as low as $20 to $25 will perform well, for example, Sears-Roebuck's Orvin.) It is a point of interest to consumers that in the current test the four watch samples that gave the poorest timekeeping performance were in the $50-and-over class, while a considerable proportion of those found best in timekeeping performance were priced under $50 or not far above that figure.

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

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

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

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

TABLE I

A. Recommended

Mfr. and Watch Name	Price	Jewels
Bulova		
Belmont	$33.75	15
*Senator	42.50 (3)	17
*President-A	49.50 (3)	21
President-C (2)	49.50 (3)	21
Elgin (see also Wadsworth)		
Thorndale	33.75	17
*Stockton (Two examined)	37.50	17
No watch name	49.75 (3)	17
Girard-Perregaux		
*Sea Hawk	47.50	15
*No watch name	47.50	17
No watch name	50.00	17
*No watch name	55.00	17
*No watch name	57.50	17
*No watch name	65.00	17
No watch name (Two examined)	65.00	17
No watch name (SW)	71.50	17
Hamilton		
*Lambert	57.75	17
*Barton "B"	60.50	17
*Grover	64.00	17
Jeffrey	64.00	17
Darrell	65.00 (3)	17
Boulton	71.50	19
Cranston	71.50	19
Longines		
Champlain (2)	71.50	17
*President Johnson	100.00	17
President Jefferson II	115.00	17
President Roosevelt	125.00	17
Montgomery Ward		
Buren (1) (Cat. No. 45-802)	24.95 (3) + Postage	17
*Buren (Cat. No. 45-802)	24.95 (3) + Postage	17
Omega		
Automatic (SW)	71.50	17
Automatic (SW) (2)	71.50	17
Automatic (SW)	95.00	17
Sears, Roebuck #		
Orvin (Cat. No. 4-0350E)	24.95 (3) + Postage	17
Rolex #		
*Oyster Perpetual	132.50	17
Wittnauer		
Ensign (SW)	55.00	17
Wyler		
Incaflex (1)	49.75	17
*Incaflex	62.50	17
Incaflex, Dynawind (SW)	65.00	17

B. Intermediate

Mfr. and Watch Name	*Price*	*Jewels*
Benrus		
Commander	35.75 (3)	15
Sharkey	100.00	17
Croton		
Aquamedico	33.50	17
Aquamatic (SW)	49.50	17
Cyma #		
Tavannes	57.50	17
Gruen		
Curvex Marshall (2)	49.75 (3)	17
Veri-thin Master	49.75 (3)	17
Auto-wind Clipper (SW)	71.50 (3)	17
Auto-wind Neptune (SW)	71.50 (3)	17
Rolex Tudor		
Tudor Oyster (2)	59.50	17
Tudor Oyster	59.50	17
Wadsworth (Div. of Elgin National Watch Co.)		
No watch name	29.75	17
No watch name	32.50 (3)	17
Automatic (SW)	49.75	17
Westfield		
Standish	24.75 (3)	7
Cameron	29.75 (3)	17
Keith	29.75 (3)	17
Wittnauer		
Lawrence (2)	62.50 (3)	17

* One of the watches tested showing superior timekeeping performance.

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

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

[2] Relative large position errors.

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

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

QUESTIONS

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

CHAPTER FIVE

Marketing Institutions

Marketing institutions are those business establishments which operate to bring goods and services from the point of production to the point of consumption. The existence of a series of middlemen of one kind or another through whose hands merchandise passes on its way to the consumer is an example of the principle of division of labor. An intermediary or middleman firm does not step into the marketing of a particular commodity as an intruder, but as a facilitator. Only if he is able to perform a service of greater value than his own profit margin will he be able to enter a business, or stay in it.

The various wholesaling and retailing functions of marketing must be performed if we are to market the output of large-scale manufacturing to mass markets. The concept that the middleman increases the cost of marketing is indeed a fallacy; on the contrary, he comes into being because he can decrease it.

In a competitive economy, pressure for efficiency and economy is continuous. Whenever a need for additional services develops, new agencies will arise to meet this need; whenever a marketing

service is made obsolete by changing conditions, the agency performing that service will be by-passed and will soon disappear. There are no vested interests in marketing.

Functional and Merchant Middlemen

The variety of specialized middlemen is great, because of the specialized needs of handling different kinds of goods and servicing different kinds of markets. In general, they can be classified as *functional middlemen* and *merchant middlemen.* The former offer a range of facilitating services, but do not take title to the goods they help to sell. They are agents or representatives. The latter actually take title to, or own, the goods in which they deal, and even, in some cases, package or process them.

Functional Middlemen

The most important groups of functional middlemen are brokers, commission merchants, selling agents, manufacturers' agents, export agents, resident buyers, auctioneers, and factors.

Brokers

The broker specializes in selling or buying, but does not physically handle the merchandise. He will sell or buy by sample or description, passing on to the principal represented the orders negotiated and receiving a small percentage of the volume of the transaction. Although the broker will pass back to his principal market information and advice, and will attempt to avoid poor credit risks, his function is limited to negotiating a sale. The seller will then ship directly to the buyer and will undertake his own collections and adjustments. Usually the broker deals in large units of business; he is particularly important in the food field and in dry goods and apparel lines. Typically, he sells to wholesalers, jobbers, chain store firms, large retail stores, and other quantity buyers.

Commission Merchants

Commission merchants actually handle the goods they sell, though they do not take title to them. They are important in the sale of dry goods, farm products, and livestock. They receive the merchandise they sell, complete the sale, make delivery, and reimburse the principal for the amount of the sale less their commission (a percentage of the amount of the sale) and less expenses.

Selling Agents

Selling agents perform almost the same functions as a manufacturer's own sales office performs. They take over the complete selling function for their principals, typically having the authority to determine channels of distribution, to fix selling prices, and to make what they regard as appropriate terms of sale. They work on a commission basis and are important in the sale of textiles, lumber, and canned goods. They may aid in financing their principal's marketing activities, and will usually handle the products of several different noncompeting manufacturers or producers.

Manufacturer's Agents

Manufacturer's agents take over the selling functions of manufacturers in limited territories. Though they do not take title to merchandise, or stock it, they represent their principals as though they were sales branches, operating under contractual terms by which their principals stipulate prices and merchandising policies. Typically, they will represent a small number of noncompeting manufacturers and will specialize by industry or trade. They will usually cover their territories with a group of salesmen and will often work closely enough with their principals to give considerable technical service. They work on a commission basis. They are important in marketing machinery and equipment, metals, house furnishings, chemicals, drugs, and lumber products. They are frequently used in industrial marketing as a means

of reaching other manufacturers who buy raw materials, components, or findings.

Resident Buyers

Resident buyers are functional middlemen who represent stores or groups of stores as buying agents in major market cities. Their method of compensation and range of duties will vary widely, depending on the particular contract terms under which they work. In some cases, their services will be limited to guiding and advising department store buyers during buying trips. In some cases, they will supplement buyers' shopping trips by making purchases between such trips. And in other cases, they will supplant the buyer in the market city.

Auctioneers

Auctioneers are important middlemen in many lines of agricultural produce. Goods are consigned to them and sold to groups of buyers who gather for the auction. In some cases, as with tobacco, most of the major buyers buy at auction. In other cases, a relatively small portion of a total will be sold at auction, but the prices so established will govern sales made through other channels. The auctioneer always receives a small percentage of the volume of sales he makes. Usually, auctioning will be used when it is necessary to inspect the merchandise sold.

Factors

Factors are important in the textile trade and combine a selling and financing function. They sell on commission, but will discount the accounts receivable for their principals.

Merchant Middlemen

Merchant middlemen can be classified broadly into two groups: regular or full-line wholesalers, and limited function wholesalers. At one time, the term *jobber* was used to designate a wholesaler who bought up job lots or other special lots of

merchandise, selling where and when he could. Today, many people use the terms *jobber* and *wholesaler* interchangeably.

Regular Wholesalers

Regular or full-time wholesalers attempt to supply all or a large part of the needs of a particular class of retailers. A drug wholesaler, for example, attempts to meet all the merchandise needs of the retail druggists who buy from him. He will maintain a warehouse or other storage facilities, buy from a wide range of manufacturers (either direct, or through one or more of the functional middlemen mentioned previously), receive and store the merchandise, and sell it in smaller quantities to his retail customers. He takes title to the merchandise and obtains his compensation on the difference between his cost price and his selling price.

In the food field, a wholesaler is very likely to serve a limited geographical area. But in drugs, sporting goods, and hardware, some wholesalers have developed national coverages. Ordinarily, the wider the geographic coverage of the wholesaler, the more specialized his lines of merchandise are likely to be.

Limited Function Wholesalers

There is a rather wide range of limited function wholesalers. The needs of each trade will suggest the modifications of the wholesale function that can be made. In the textile field, for example, the converter buys greige goods (the gray cloth as it comes from the loom of the weaving firm), bleaches it, and sometimes dyes it, then sells it in large quantities to the cutter up, or garment manufacturer. Not only is his function highly specialized, but the converter adds a manufacturing process as the goods pass through his hands.

Drop shippers perform all the wholesale functions except delivery. Typically, they buy and sell merchandise in the same way as does the full-line wholesaler, but instead of undertaking their own warehousing, they have their sources of supply make delivery directly to the wholesaler's customers.

Wagon distributors are important in the sale of perishable goods and goods with a rapid turnover. Produce is often sold to small retail stores by wagon jobbers who have a regular route and make delivery as they sell. As the size of the food store has increased, the wagon jobber has become less important.

Cash-and-carry wholesalers merely maintain warehouses and sell to retailers who call for the merchandise they buy. Typically, they do not grant credit but sell for cash. Their operating expenses are very low.

Importance of Wholesale Function

The middlemen described in the foregoing paragraphs are merely the more usual types of wholesalers. As conditions change, middlemen adapt their methods to meet the new conditions. The wholesale function must be performed, and it will tend to be performed by the most efficient and economical channels of distribution.

12 L.&D. STORES, INCORPORATED

Marketing Functions of a Chain Food Store

L.&D. Stores, Incorporated, a Massachusetts corporation, was organized in April, 1927. The company operates a chain of retail stores in nineteen states, the District of Columbia, and the four Western Provinces of Canada.

For many years the trend in the retail business has been toward large volume stores and more efficient ones. For example, the average number of stores operated by L.&D. during 1936 was 3,124 with average sales of approximately $1,500 per week as compared to 2,131 stores in 1950 with average sales of approximately $10,270 per week and 1,925 stores in 1953 with average sales of approximately $16,768 per week.

L.&D. was one of the first food chains to adopt a "buy-build-sell-lease" real estate program for securing large volume stores, ware-

houses, and other facilities at desirable locations and also for limiting the permanent investment in real estate. The program includes the purchase of carefully selected lots for building stores with adjoining parking space, the construction of buildings thereon, and the sale of the property at or about cost with a long-term lease from the purchaser.

In 1951, L.&D.'s tentative plans involved the construction of approximately five hundred retail locations by 1953. L.&D. completed 35 retail locations in 1951, 100 in 1952, and 95 more in 1953. During this same period, the company closed over five hundred of its former stores.

The 1951 plans of L.&D. have been modified so that the program will involve the construction of not more than one hundred stores annually. The new stores will feature air-conditioning, self-service meat sections, refrigerated produce, and enlarged frozen food, dairy products and bakery goods departments. Most of the stores will have adjoining parking space for one hundred or more cars.

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

In connection with its business, L.&D. operates 23 principal grocery warehouses, 15 produce warehouses, 10 bakeries, 6 meat distributing warehouses, 5 fluid milk plants, 4 coffee roasting plants, an evaporated milk plant, 5 creameries, 6 dressing plants, 2 fruit canning plants, a vegetable canning plant, a cracker bakery, 8 cake plants, 4 jam and jelly manufacturing plants, 6 soft drink bottling plants, a poultry dressing plant, a fish processing plant, an oleomargarine and shortening plant, a cereal processing plant, a sausage and meat processing plant, a cheese manufacturing and aging plant, 4 butter churning plants, and a number of branch warehouses.

In 1945, L.&D. completed arrangements with seven commercial banks for financing reserve and processing stocks of merchandise. All but approximately 15 per cent of the cost of the merchandise is

financed through self-liquidating bank loans. The plan provides for the purchase of merchandise of Youngton Commodities, a wholly-owned subsidiary, with funds obtained from bank loans for the processing and storage of this merchandise and for its subsequent sale to L.&D. In 1953, the banks renewed their commitments to make approximately 90-day loans to Youngton providing for an aggregate credit at any one time of $10,000,000.

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

QUESTIONS

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

13 JOHNSON WHOLESALE DRUG COMPANY

Determining the Profitableness of Small Accounts

The Johnson Wholesale Drug Company was incorporated in January, 1935, for the purpose of combining under one ownership a group of well-established wholesale drug companies located in various parts of the country. Additional wholesale drug companies were

acquired by the company from time to time, so that by 1953 the business was conducted on a nation-wide basis through fifty-four divisions located in twenty-eight states.

The company distributed in its wholesale drug business almost all the products which are usually sold by retail druggists, totaling many thousands of different items, including drugs, medicines, pharmaceuticals, cosmetics, toiletries, and drug store sundries. These products were obtained from over four thousand manufacturers and suppliers and were sold principally to about twenty thousand retail drug stores, or to about 40 per cent of all such stores in the United States. Johnson's wholesale drug services included local warehousing and delivery, and also the furnishing of merchandising aids and advice to customers.

Although the sales of the Johnson Company increased during the five-year period, 1949-1953, the net income before Federal Taxes decreased as indicated in Table I:

TABLE I

	Sales	*Net Income Before Federal Income Taxes*
1949	$224,821,000	$8,675,000
1950	265,324,000	7,927,000
1951	281,191,000	6,112,000
1952	297,621,000	5,784,000
1953	321,746,000	4,696,000

Johnson followed the policy of using salesmen in every division to contact the retail druggists. These salesmen were required to call on all retail druggists in their respective territories, regardless of the quantity which might be purchased, and to offer as many merchandising services as needed. These services included building window displays, helping with purchasing, balancing stocks, advising on sales trends, arranging interior displays, suggesting markdowns, and recommending special promotions.

It was the belief of the Johnson Company that the good will developed in this manner did much to maintain a strong retailer-wholesaler relationship. Johnson did only a limited amount of national advertising because of the aforementioned policy.

The declining profit margin was very disconcerting to the company, and an investigation was made to determine the cause. In the

course of the inquiry, the controller decided to analyze the profitableness of the twenty thousand customers.

The bases of the study were limited to company records. The records used were the following:

(a) Name of each customer.
(b) City in which retail store was located and the distance from the division warehouse.
(c) Number of each customer's purchases over the last six months' period.
(d) Total dollar value of each store's purchases during this period.

The information from the records necessary for the investigation was placed on cards, one for each customer. These cards were sorted and classified according to the subject matter being studied. For example, in order to determine the number of small orders and their value, the cards were sorted into five piles: One for total purchases for the period of less than $100; one for purchases between $100 and $250; one for purchases between $250 and $500; one for purchases between $500 and $1,000; and one for $1,000 and over.

After this sorting was completed, the number of customers and the value of their purchases were added up for each of the five groups. A similar method was employed to compile the other information presented in the controller's report.

In his report, the controller indicated that a large proportion of Johnson's customers placed small orders and probably required a relatively large amount of service. See Table II.

TABLE II

Total Purchases by Each Retail Store for the Six Months' Period Ending December, 1953	*Per Cent of Number of Customers*	*Per Cent of Johnson's Total Sales for Period*	*Average Size of Order in Dollars*
Less than $100	12	1	$ 9.75
$100 to $249	27	15	18.75
$250 to $499	30	31	36.21
$500 to $1,000	18	24	65.84
$1,000 and over	13	29	97.63
	100	100	

The controller concluded from these figures that the customers who bought less than $100 during the six months' period made such small purchases that it was not worth while to keep these accounts.

In his opinion, it was also doubtful as to whether or not those who bought less than $250 should be retained because he could show how their accounts were unprofitable as well. He believed that the high cost of handling these accounts was the most important single factor causing the decreasing profit trend. Another point which he emphasized was that many of the druggists had shifted to more of a "hand-to-mouth" buying policy. In the six months' period, 11 per cent of the customers had placed orders fifty times or more. He recommended that steps be taken to change their buying habits or even to eliminate some of these customers.

The sales manager was reluctant to drop any of the accounts because he felt that if his salesmen gave better merchandising services than any of the competitors, Johnson would eventually be able to make these customers profitable. He stated that 95 per cent of the 2,400 retail drug stores which the controller wished to drop were potential profitable accounts.

QUESTIONS

1. What should be the policy of the Johnson Wholesale Drug Company in dealing with the 2,400 drug stores whose purchases totaled less than $100 during the six months' test period?
2. Should the same policy be applied to those stores who purchased between $100 and $250 worth of Johnson's products?
3. Recognizing that the Johnson Company was faced with competition from local wholesalers as well as from the national distributors, what might the firm do to change the "hand-to-mouth" buying policy, which is always costly for a distributor?
4. How long should a wholesaler continue to service an account which is unprofitable?

14 THE HEALTH AID MANUFACTURING COMPANY

Analyzing a Distribution Policy

The Health Aid Manufacturing Company was founded in the early thirties for the purpose of manufacturing and packaging a full line of family health aids and simple household remedies. These

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

QUESTIONS

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

15 THE WHIGMORE TURKEY RANCH

Considering the Use of Food Brokers

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

forecast at the time it was necessary to plan the size of the flocks to be brought to market. The birds could not be withheld from the market, but had to be sold for whatever the market price was.

Typically, Mr. Whigmore ran flocks of from 10,000 to 15,000 birds. In some years, his crop was harvested at prices which paid him more than adequate income, but in other years he had to sell at prices which resulted in a loss for his year's work. After several years of experimentation, Mr. Whigmore developed a line of canned turkey products which included jars of thinly sliced white and dark meat, cans of turkey livers, and a canned concentrated turkey soup. Thus, he planned to minimize wastage in the use of the turkeys. In addition, he planned, ultimately, to introduce canned smoked turkey and canned barbecued turkey.

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

He prepared the meat and soup stock and had several cases of each turkey product canned. Early in 1954, after he had sold his fall crop, he brought his samples to the western buyers of several chain food store firms. Although every buyer admitted that the products were of exceptional flavor and quality, all of them stated that even if they could be sure of consumer acceptance, which they doubted, they could not consider the products in such small quantities as Mr. Whigmore planned to offer at the outset. On the other hand, several smaller grocery stores were willing to stock small quantities if they could be sure of a supply when they needed reorders.

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

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

This broker informed him that a large proportion of small canners and producers of specialty food products distributed largely through

food brokers. Such brokers typically represent a group of noncompeting food producers on a commission basis. They did not take title to the merchandise and did not make deliveries. They called on wholesalers or retailers, whichever was more appropriate for the particular product, sampling what they had to sell, passing on what sales promotional information they could, and making every effort to introduce and broaden the market for the lines they represented. The producer shipped merchandise on receipt of orders from the brokers and paid the brokers a commission after he had collected from the wholesalers or retailers who had bought his products. A commission of 2½ per cent was about the average offered.

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

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

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

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

tional wholesale markets until shipping costs prohibited further expansion.

QUESTIONS

1. Should Mr. Whigmore have considered attempting to combine two different kinds of marketing activity?
2. Would he get aggressive enough sales promotional support from a food broker?
3. Would he have done better to attempt to sell his canned products to some retailing organization for private branding?
4. What are the advantages and the disadvantages of using food brokers?

16 THE TABOR ELECTRICAL COMPANY

Deciding Upon the Use of Manufacturers' Agents

In 1952, after making electronic components under license from the Bell Telephone Laboratories for several years, the Tabor Electrical Company developed some new devices on which it was able to obtain basic patents. Under its license agreements, the company had manufactured diodes and transistors (which were electronic equivalents for vacuum tubes) and in addition, had installed, on a custom basis, electronic controls on some types of military planes. In 1952, its volume of custom contract work amounted to $13,500,000 and its volume of manufactured electronic components was $1,750,000.

Because it had experienced considerable difficulty in manufacturing diodes and transistors that would remain electrically stable, the company undertook the research which led to the development of a new, and it believed, superior form of transistor, and to the development of a new form of coupling to be used in electronic hookups. Because the usual diodes and transistors were all made under licensing agreements permitting the use of the Bell Telephone Laboratory's basic patents, there had been very little opportunity for Tabor to develop a market for its own diodes and transistors. Its products had been used in its own contract work and had been sold to other firms when there was a scarcity of electronic equipment. Because of low

margins on outside sales, the company had not tried to build a sales force.

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

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

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

When the executives considered establishing a more formal marketing organization, the vice president, Mr. John Bolton, who was in charge of manufacturing and who had been responsible for the research which developed the new devices, urged that several of his development engineers be assigned the sales function. He argued that these engineers had a degree of technical knowledge which would allow them to combine service with sales in offering the new equipment to military plane manufacturers, and that they would be better able than any other group to discuss new electronic applications with firms outside of the aviation industry.

After considering the location of the firms now using electronic equipment, it was decided that sales representation was necessary in nine locations: Seattle, Washington; Portland, Oregon; Southern

California; Wichita, Kansas; Ohio (to include Cleveland, Dayton, and Cincinnati); Chicago; Philadelphia and Baltimore; New York City; and Northern New York and New England. There was considerable doubt that the company could spare nine electronic engineers, and there was some question as to the profitability of using high-priced men such as these for sales work. The engineers' salaries ranged from $9000 to $15,000 a year, the average being $12,000. It was estimated that the cost of even a small office with one stenographer, plus traveling expenses, would about equal the salaries paid the engineers. The field expense under this setup would amount to about $200,000.

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

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

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

In the electronics field, several manufacturers' agents maintained sales forces of from five to fifteen men who had come to know a great deal about electronic applications. In addition, several of the larger firms maintained technically trained electronic engineers to back up their salesmen. Manufacturers' agents in general charged a commission ranging from 5 per cent up to 25 per cent of net sales, but in the electronics field, 10 per cent had come to be a reasonably frequent commission. The manufacturers' agents ordinarily represented from five to twelve or fifteen manufacturers, depending on the length of the lines. Although it was possible to do business with these agent-firms without a long-term contract, the fact that many of them invested considerable sums in doing missionary sales work in intro-

ducing products made them reluctant to accept new lines without some understanding as to permanency and territorial protection.

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

QUESTIONS

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

17 BISHOP APPLIANCE STORE

Competition with the Discount Houses

Carl Bishop operated an appliance store in New York City and had, over a period of sixteen years, built up a business of about $750,000 in sales yer pear. In 1952, Bishop's sales dropped to $625,000 and in 1953 the sales fell to $578,000.

When the sales decreased in 1952, Mr. Bishop immediately began a thorough check on the reasons for the drop. He installed model rooms for kitchen and laundry equipment and set up a training program for his sales force to combat price competition. Because of the services he offered he felt that it was not essential to emphasize price, so in his advertising he placed his appeal on quality. He had

his accounting department study costs to determine if it would be possible to make a profit on a lower markup basis.

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

Mr. Bishop was a member of the National Appliance and Radio-TV Dealers Association, and had followed a policy of applying a gross margin of 32 per cent on major appliances. His cost of business in 1951 had been 28.2 per cent, which had left him a net operating profit of 3.8 per cent. However, with the decreased sales in 1952, he earned a net operating profit of 0.4 per cent and in 1953, he ended up with a net operating loss of 3.2 per cent.

In January, 1954, Mr. Bishop checked his records and discovered that the ratio of customers calling at the store to the number of sales had increased in 1953 to "10 to 1," as compared to "8 to 1" in 1952. During February, Mr. Bishop and his salesmen questioned the people who came to the store and found that many of them were only looking at the appliances with no intention of buying. Some indicated that they were in a position to get a sizeable discount from other distributors but wanted to check the different makes of appliances before placing their orders.

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

When customers became convinced that the appliances would do a very efficient and economical job in their homes, it was no longer as essential to do the same kind of merchandising. In many instances, displays alone produced satisfactory results. Variety stores, drug stores, supermarkets, auto stores, and so on began to offer appliances, and personal salesmanship decreased. However, despite a change in the kind of merchandising necessary in the appliance industry, the compensation system for distributors and retailers remained essentially the same.

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

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

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

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

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

QUESTIONS

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

18 GREEN WHOLESALE GROCERY COMPANY

Analyzing the Services of a Voluntary Chain

The Green Wholesale Grocery Company was faced with the problem of a decrease in sales per salesman and a lower profit margin. The volume of sales per salesman decreased from $260,000 per year in 1948 to $175,000 per year in 1953.

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

In 1941, after failing to make a profit during his first three years of operations, Mr. Green formed a voluntary chain among his cus-

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

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

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

Sales of the company increased from 1941 to 1953, and by 1953 the volume was $3,150,000. Profit margin that year declined to 0.15 per cent, as compared to 1.4 per cent in 1948 when the sales were $2,600,000.

Mr. Green had ten salesmen on the sales staff in 1948 but decided that he needed a larger staff if the men were to be more than mere *order takers*. After surveying the market, he concluded that there should be twenty salesmen on the sales staff by 1953. To attain this number he planned to hire two men each year.

When Mr. Green and the treasurer reviewed the financial position in January, 1954, the company had eighteen salesmen. All of them had been with the company at least one or more years, and only two of them did not have sales experience in the grocery wholesale field before accepting a position with the Green Company.

The treasurer believed that it was not necessary to have so many salesmen and attributed the declining profit margin to the high selling costs. In analyzing the expenses, he pointed out that the oper-

ating costs of the company had increased from 10.5 per cent in 1948 to 12.1 per cent in 1953. Administrative, shopping, warehouse, and occupancy costs accounted for only 0.3 per cent of the increase, whereas the jump in selling expenses amounted to 1.3 per cent.

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

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

QUESTIONS

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

19 JAMES ROBERTI DRY GOODS COMPANY

Deciding on Central Merchandising

In the summer of 1953, Mr. James Roberti, proprietor of the James Roberti Dry Goods Company of Columbus, Georgia, was offered an opportunity to participate in the central merchandising of a chain of medium-priced department stores. This chain was attempting to increase the volume of its purchases by allowing stores in areas in

which it was not represented to take advantage of its buying and merchandising facilities.

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

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

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

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

On the basis of this model stock plan, at the beginning of the

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

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

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

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

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

QUESTIONS

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

20 CODY EQUIPMENT COMPANY

Financing Accounts and Notes Receivable

The Cody Equipment Company, a manufacturer of farm machinery, was faced with the problem of an increase in accounts and notes receivable. In 1947, these outstanding accounts amounted to $452,000. Since then there had been a continued increase each year until, by 1953, they amounted to $2,465,000.

Products of the Cody Company are distributed to independent dealers through eight branch houses, which are for the most part concentrated in the midwestern states. From these warehouses the company's five hundred independent dealers are serviced.

Dealers' inventories of Cody Company equipment, as measured by the receivables from dealers, vary with the seasons of the year, historically reaching their high in the month of March or April and their low in the month of October or November.

The farm equipment industry has always been affected by fluctuations in demand, which have a direct and sensitive relation to agricultural conditions; these conditions, in turn, are influenced by such unpredictable variables as weather and pests, as well as by domestic and world economic and political situations.

The Cody Company sold to dealers at wholesale prices on terms that permitted each dealer to carry a representative stock of goods with which to supply the needs of the farmers in his territory; in nearly all cases, the dealers were allowed to sell the goods and to

settle either in cash or in cash and farmers' notes prior to the net maturity date. Down payments were not required from dealers. As security, title to or a lien on the new goods in the dealer's stock was retained.

Notes from dealers for goods carried in their stocks were not required prior to the settlement date. However, notes and collateral were sought from a dealer who failed to settle his account within the proper time.

Customers' notes were accepted without recourse from dealers in payment of their accounts, provided such notes met the requirements of the company's finance plan. One of the most important requirements was the amount of down payment. The dealer must obtain, as a minimum, a down payment of at least 25 per cent of his selling price, plus freight and handling charges. Deferred balances on scales of less than $100 had to mature prior to sixteen months from date of delivery. Two crop seasons was the maximum time allowed on balances on sales of $100 or more. As security, a mortgage or other lien on the goods was obtained and held until all deferred balances were paid in full.

It was the company's policy to collect each note at maturity. No advance commitments were made as to the extension of the notes, but extensions were granted to customers who, because of unforseeable circumstances, such as crop failure, were unable to pay their notes at maturity. In such instances, payment of interest, a reduction of principal, and further security were customarily required.

As of November, 1953, 48 per cent of the $2,465,000 receivables had originated more than eighteen months prior to that date. As a result, the Cody Company found itself short of working capital and decided to investigate the ways in which the receivables might be discounted at some finance company.

Mr. Cody, the President of the company, communicated with Mr. Patterson, a close friend and head of a large southern finance company. Mr. Patterson informed him that his company would be interested in providing the necessary capital and suggested several ways by which the accounts and notes receivable might be financed. Among these were the following:

1. Patterson's company had served as a factor for firms in the textile field, and he pointed out that some comparable arrangement might be worked out. Under "factoring" the finance company pur-

chases the current accounts receivable primarily from manufacturers, wholesalers, mills, and converters in the textile and allied fields, subject to prior investigation and approval by the "factor" of the customer's credit. The "factor" takes the risk of loss and collects directly from the customers, who are notified that the company's bills are payable to the "factor."

If this method was used, the Cody Company would not have any liability on the accounts other than for their validity. The fee for this service would amount to 2 per cent of the face amount of the receivables purchased, plus a charge of 6 per cent interest to the customers on the average cash outstanding.

2. A plan of "receivable financing" could also be used whereby Patterson would purchase acceptable notes and accounts from the Cody Company without giving customers notice of the assignment. The Cody Company would continue to make collections directly from its customers and to approve credits. The charge for this service would depend upon whether or not Cody would guarantee the loans. The rate would vary from $\frac{1}{50}$th of 1 per cent to $\frac{1}{25}$th of 1 per cent per day on the average amount of cash outstanding.

3. The third method that Patterson explained was "installment financing." Under this procedure, Patterson would buy the time sales lien obligations on the equipment. The down payment and credit of the former would have to be satisfactory to Patterson. Installments would be set up on a monthly basis with a charge of 6 per cent.

4. The fourth plan Mr. Patterson recommended was that Cody make a direct loan and pledge as his collateral his accounts and notes receivable. Mr. Cody did not want to increase his fixed charges and was reluctant to make any direct loans. It was his desire to have some other organization provide the facilities for financing the purchasing of farm equipment by dealers and the sale at retail to farmers.

QUESTIONS

1. Do you believe it would be advisable for Cody to use a method of "factoring" to finance the sale of farm equipment? Why or why not?
2. If Cody decided to sell his accounts and notes receivable to Patterson what would be the advantages and disadvantages of not giving customers notice of the assignment?

3. Are there any other methods of financing which you might recommend to Mr. Cody?
4. Would it be a sound policy for Cody to set up a payment plan whereby the farmers would have to make set monthly payments?
5. What method of financing should the Cody Company adopt?

21 MURPHY ASSOCIATES

Evaluating the Distribution Problems of a Merger

Murphy Associates, a firm of management consultants, was hired to make a study of the Universal Farm Machinery Company and of the Premium Agricultural Implement Company in order to determine whether or not it would be advisable for them to merge.

This merger was considered because the President of Universal believed that substantial economies would result from combining the manufacturing facilities of the two companies. He felt that tractor manufacture could be centered at one plant, combines and threshers at another, and so forth, with lower unit costs resulting from increased unit production.

The Murphy Associates senior believed this possibility worthy of study and, after a discussion with the sales managers, decided to investigate the possible advantages of combining the distribution systems as well.

The companies were of approximately the same size, with net sales in 1947 of about $80,000,000 in both cases. Both companies sold their lines of farm machinery through dealers who were serviced by a system of regional sales offices and sub-branches with blockmen who were in continuous contact with the various dealers. Universal had a list of 2,100 dealers, whereas Premium had 1,900. The companies preferred to have dealers who handled their line exclusively, but in practice, both had a considerable number who also handled some competing products.

Analysis of the two lists of dealers showed that in about 65 per cent of all communities in which one or the other company was represented, both had dealers. Analysis of sales volumes by dealers showed a wide variation—from $2,000 to $250,000 per year. The aver-

age annual sales volume per dealer in 1947 had been approximately $30,000, at retail price, for dealers of both companies.

Although detailed financial data on dealer operations were not available, the application of data developed by an NRFEA survey, entitled "Cost of Doing Business—1947,"[1] for dealers with sales volumes in that year of from $0 to $75,000 was helpful in visualizing the situation of the "average" Universal or Premium dealer. See Table I.

TABLE I

NRFEA SURVEY
Cost of Doing Business
(Group A—$0-$75,000)

	1947 *Dollar Volume*	*Percentage Analysis*	*Percentage of Net Sales*
Sales:			
New goods	$34,735	60.41	
Used equipment	1,646	2.09	
Repair parts	9,689	16.83	
Service labor	2,566	4.46	
Other lines	8,861	16.21	
Total sales	57,497	100.00	100.00
Cost of sales:			
New goods	28,087	62.57	
Used equipment	1,323	2.94	
Repair parts	6,590	14.68	
Service labor	2,316	5.16	
Other lines	6,578	14.65	
Total cost of sales	44,894	100.00	77.89
Operating margin	12,603		22.11
Other income	1,617		2.81
Total operating margin	14,220		24.92
Total expenses	8,869		15.41
Net operating profit (before tax)	5,360		9.51

[1] *Note*: The $30,000 approximation for average sales at retail by Universal and Premium dealers was most nearly comparable with the sum of the "New Goods" and "Repair Parts" components of sales as shown by the NRFEA survey data appearing in Tables I and II. It represented about $20,000 in sales at the companies' price to dealers. The $80,000,000 sales volume shown for Universal and Premium when divided by numbers of dealers did not yield a $20,000 average. However, because of export, industrial, and other sales not transacted through local farm implement dealers, the average volume was $30,000.

	Percentage of Operating Margin	*Dollars of Operating Margin*	*Percentage of Net Sales*
New goods	52.75	$ 6,648	19.14
Used equipment	2.56	323	20.00
Repair parts	24.59	3,099	32.00
Service labor	1.98	250	9.74
Other lines	18.12	2,283	25.76
	100.00	$12,603	22.11

The dealers of both companies reported that the demand for all their lines exceeded the supply that they were given. This demand was attributed to wartime shortages, large cash reserves in the hands of farmers, high farm prices and income, and bumper crops.

The dealers, many of whom experienced a number of years of low sales volume during the thirties, complained that the factories were not making sufficient effort to keep up with the demand. As a result, the dealers who sorely needed a few years of good earnings, owing to short supply, were unable to capitalize on this opportunity.

Individual interviews with well-established dealers and with farmers were conducted by Murphy Associates in such a way as not to disclose the identity of their clients. These interviews revealed that the prime factors which determined a dealer's standing in his community were his reliability as a source of parts and repairs and his reputation for fair dealing and good service. Relatively little emphasis was placed on the quality of the line, because there was not a great deal of difference between the competing products in the minds of the farmer-customers.

These dealers and farmers also pointed out that special purpose implements, such as corn pickers and combines, represented substantial investments which had to be carried by the farmer throughout the year for the sole purpose of having the implements available for one or two weeks at harvest time. Failure of such an implement could arise only during the short period of its use. If the implement was not repaired immediately, a day's delay might mean considerable financial loss to the farmer. For this reason, it was said, farmers considered parts and repair service as the most important factor when determining from which dealer they would buy.

These dealers believed that a substantial inventory of service parts was necessary for successful long-term operation in any community and stated that a stock of $10,000 was a minimum amount to have.

A check with data compiled by the National Retail Farm Equipment Association revealed important information with respect to dealer finances and operating results. See Table II.

TABLE II

Sales Classification

1947

Group A	$ 0- 75,000 per year
Group B	75,000-150,000 per year
Group C	150,000-250,000 per year
Group D	250,000-per year and over

AVERAGE—ALL GROUPS

	Amount	*Per Cent to Total*
New goods	$103,971	56.37
Used equipment	9,204	4.99
Repair parts	33,568	18.20
Service labor	10,144	5.50
Other lines	27,557	14.94
Total	$184,444	100.00

INVENTORIES

			Percentage of Service Parts	
	Beginning	*Closing*	*Beginning*	*Closing*
Group A	$10,457	$16,065	53.2	49.7
Group B	15,389	21,989	50.8	47.2
Group C	23,959	32,974	48.6	45.1
Group D	42,772	31,633	45.4	44.5

INVENTORY TURNOVER

Group A	4.8 times
Group B	5.4 times
Group C	6.4 times
Group D	7.5 times

National Average, 1947—6.6 times

Because average sales volume per dealer for both companies was about $30,000 per year, exclusive of other lines, it appeared that the majority of both companies' dealers would fall in Group A, and well below the averages shown by NRFEA members. Using the $0-$75,000 volume group as a criterion for considering the "average" Universal or Premium dealer, it appeared that they needed strengthening.

The sales managers of both companies agreed that manufacturing economies would result from a merger and that the problems with respect to trade names, distinctive colors, markings, and features could be solved. However, they objected to the merger on the grounds that a combined company would have to cancel a large number of dealer contracts. The "cancelled" dealers would secure competitors' franchises and take their farmer customers with them. Furthermore, neither the companies nor Murphy Associates believed that a comprehensive survey of dealers could be made without causing unrest and apprehension among many dealers.

QUESTIONS

1. As the senior in charge of this job for Murphy Associates, how would you proceed from this point?
2. What action would you recommend in your report to the Universal and Premium Boards of Directors with respect to the advantages or disadvantages of the proposed merger from the marketing standpoint?
3. How significant is the fact that the "cancelled" dealers would handle competitors' lines?
4. How might you make use of the NRFEA data?

CHAPTER SIX

The Retailing System

The retailing system of the country performs the final step in the marketing process. It is the most expensive, and probably the most competitive, part of the marketing task. Out of the hundreds of thousands of items of merchandise available, the retailer must somehow find the particular assortment his customers want, and he must be able to offer these items at prices his customers will pay. He is in competition with neighboring retailers who are continually seeking ways of reducing their operating costs so that they can offer merchandise at lower prices. These competing retailers are continually trying to find more effective methods of sales promotion so that they can attract a greater proportion of customers into their stores. The successful retailer must be skillful, alert, and hard-working.

Retailer's Margin

From the standpoint of the consumer, the gross margin of the retailer is the price that he pays for retailing service. This price will range from about 12 per cent of the retail dollar for a well-

operated food store to somewhere between 35 per cent and 40 per cent for department stores, furniture stores, and jewelry stores. Typically, the consumer resents the high price paid for retailing service and tries to find ways of buying at some sort of discount which will reduce the price of retailing service.

Classification of Retailers

At one time, the retail field could be described concisely. There were hardware stores which sold hardware, drug stores which sold drugs, and so on. Competition was largely confined to stores within the same fields of merchandise classification. Because of the small overlapping of inventories among the various types of stores, this same orderliness carried back through the layers of wholesale institutions.

Gradually, however, we have developed what can best be described as "scrambled" merchandising. Today, a large food store is just as likely as not to stock a limited line of hardware store items, possibly housedresses and aprons, a line of drug merchandise, and some housefurnishings. A drug store has become almost a junior department store. A chain tobacco store may carry a line of men's shirts and sportswear, possibly costume jewelry, and possibly a small inventory of books. In one appliance survey, jewelry stores, beauty parlors, and automobile service stations were found retailing electric refrigerators. With the removal of price limits by some of the variety chains, these stores have come to carry a wide assortment of merchandise at various price levels, and some of them have come even to offer instalment terms.

The cause of the immense confusion in classification among types of retailers probably has been the development of selling through display and point-of-purchase advertising. Whatever has been found salable through display has, in general, been added to inventory, resulting in a continued blurring of the lines of demarcation between types of stores.

Changes in Retailing

Over the years, increased emphasis on building store traffic and sales on the basis of display has helped to bring about major changes in the nature of retailing. The supermarket has come to be a dominant factor in the retailing of foods and of a wide variety of additional merchandise. The apparel chains have grown in importance, and the variety chains have moved into direct competition with the department stores. The two major mail order firms have also developed chains of retail stores which have come to be important forces in the field of retailing.

Statistics show that the department store, as a marketing institution, has lost steadily in its share of retail volume. This statement, although technically true, is somewhat misleading: Such firms as Sears, Roebuck & Company, Montgomery Ward, J. C. Penney, and W. T. Grant have moved into direct competition with the department stores, and could well be included in the department store classification. Nevertheless, only the strongest department stores have been showing vitality and promise.

Retail Decentralization

Another trend which has followed increased reliance on store traffic and display has been the tendency of various types of retail establishments to follow the customer into suburban shopping centers. The variety chains and the mail order firms were the pioneers in this trend; their competitive inroads on the sales volume of centrally located downtown stores almost forced the centrifugal decentralization that is now occurring in our larger cities.

Retail decentralization brings with it several retailing problems. In the first place, the operation of remote branch stores of substantial size makes it difficult to offer a wide variety of merchandise. Until large central-city stores have the same kind of standarized control of branches that the chain store companies

have, there will be some difficulty in meeting the varied needs of customers without undue cost.

Another problem, which has not yet become acute, is the decreasing volume of downtown stores which have considerable investments in plants and are dependent on a large volume of sales.

Chain Store Operation

In the entire field of retailing, the chain store type of operation has come to be very important. In food, apparel, shoes, drugs, and the variety and general merchandise classifications, an important share of retail trade is going to chain store organizations. Many students of retailing have feared that chain store firms would come to dominate retailing. Actually, there is little danger, because central organization overhead grows as new stores are added to a chain until—ultimately—the profit brought in by additional chain units is not as great as the increase in central administrative expenses. We may assume that every chain store organization has a point beyond which expansion becomes unprofitable. Although additional chain store organizations may be formed, there seems little likelihood that present chains will develop to the point at which they can control any phase of retailing.

Importance of Managerial Skill

As has been suggested, successful retailing requires a high degree of managerial skill. The individual retailer, if he is skilled and industrious, can successfully withstand competition from chain store units, because he can more closely adapt his merchandise offerings and his service to the needs of his particular clientele. The small retailer who is not skilled, however, rarely does well and rarely survives. Retail trade is said to have a high mortality rate. But under investigation, the greater part of retail mortality appears to come from small merchants who lack the knowledge and capital necessary for operating a store.

Major Problems

Two major problems facing retailers must be solved. The first is that of reducing the gross margin requirement. Food stores have done an admirable job of reducing the cost of retailing service to the consumer. But many of the high-margin stores have made little progress in so doing. And it is these stores which are most critically threatened with new types of competition that can operate at lower cost—even at the expense of decreasing retail service. The so-called high-ticket items (household appliances, furniture, rugs and carpeting, cameras, radios, television receivers, and phonographs) cost enough to make the consumer very conscious of the expense of retailing service. It is primarily such items that are sold widely by discount houses and buying clubs, and through other less formal methods of retailing. More consumers are beginning to assume a considerable part of the retailing function in order to buy some item of infrequent purchase and high unit price at a saving of from twenty-five to fifty dollars.

The second problem relates to inefficient selling. Although convenience goods and impulse items may be sold widely on the basis of display at points where customers come, the attempt to sell specialty merchandise through display is inherently unsatisfactory. The store which gives prominent display space to mechanical refrigerators will sell a good many refrigerators to customers who already intended to buy. But at least as many customers could be made aware of needs by more aggressive selling methods. During the twenties and a part of the thirties, house-to-house selling by salesmen from downtown stores opened broad and profitable markets for specialty merchandise. Not enough such selling is now being done—in spite of an occasional spectacular demonstration—to open new markets.

The retailer who complains about price competition can only get temporary protection from sheltering legislation. His permanent protection must come from meeting price competition or increasing sales effort and service.

Importance of Retailing Function

Retailing is a necessary function, and will continue to be performed. But it will be performed by those retailing institutions which most nearly meet the needs and wishes of customers. No retailer has a vested interest in his business life or his business methods.

22 CALLAN AND KROVER

Starting a Retail Store

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

Mr. Callan was 30 years old, and had been employed by the Zenith store since his graduation from high school. While in high school he held several jobs in the retail field. Shortly after graduation he married one of his classmates. They had three children, two boys (ages 7 and 6) and a four-year-old daughter. During his eleven years with Zenith, he had progressed satisfactorily, and was considered one of the most promising salesmen in the organization. He was paid a salary of $300 per month and a commission on sales. In 1953, he earned $6,450.

Mr. Krover received a college degree in chemistry in 1945. He first went to work as a salesman for a large chemical firm, but after three years, because he did not like to be away from home so much, he resigned to accept a position as a salesman with a large real estate firm. This firm specialized in developing shopping centers. Mr. Krover was married and had one son who was three years old. Upon the death of his father, he had inherited $50,000.

The firm for which Mr. Krover worked constructed all the buildings in a shopping center according to its architectural plans and then leased the stores to selected individuals. A few months before, the company had completed such a center in the suburban section of the city in which the Zenith store was located, and all the stores

except one had been leased. This building was a one-story structure 130′ deep with a 70′ frontage. There were ample parking facilities behind the store, and an important city boulevard, on which city busses passed at regular intervals, served as the main street in the shopping area.

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

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

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

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

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

Mr. Callan was enthusiastic about the partnership idea and immediately began investigating its possibilities. He told Mr. Krover that he believed they should specialize in high-grade home furnish-

ings and attempt to build a reputation as "interior decorators." He stated that they might anticipate an inventory turnover about three times a year and suggested stock distribution as shown in Schedule I.

SCHEDULE I

PLANNED STOCK DISTRIBUTION

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

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

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

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

SCHEDULE II

EXPENSE CONTROL BUDGET

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

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

SCHEDULE III

CALLAN AND KROVER

Planned Budget for First Year of Operation

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

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

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

Mr. Krover and Mr. Callan decided that the area in which the store was located was a growing one. One thousand homes had been

constructed in the past five years, and there was enough room for an additional three hundred units. The families were relatively young and, in many instances, both the husband and wife worked.

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

QUESTIONS

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

23 THE MERRY MART

Deciding on the Policy for an Independent Store

The Merry Mart, a Juvenile Department Store, is located on the outskirts of a major shopping area. The store was opened in 1950, and because of its location, it was able to secure a good selection of the national brands of merchandise. Each year the sales of the store continued to increase, so that by 1954 the sales volume was about two and a half times greater than it had been in 1950.

The store handled only one make of shoes, the nationally advertised Buster Brown brand. However, for some time, Mr. Poe and his partner had been receiving a great many requests from their customers for a cheaper shoe. The partners checked the suppliers very carefully and found only one manufacturer who was turning out a

lower price shoe of the quality they were willing to sell. This manufacturer did not do any advertising and sold primarily to large purchasers who sold under their own labels.

Unlike the large department store or chain outlet, the small independent retailer is much concerned with national brand merchandise. The chains and large stores are in a position to develop sufficient prestige of their own to secure public acceptance of the merchandise they sell. In fact, brand manufacturers will compete with each other to place their products with these stores.

The rapid growth of our suburban population in the last ten years, the substitution of the private automobile for public transportation, and the high cost rentals of central business districts have stimulated the spread of the type of retailer heretofore confined to Main Street into many outlying shopping districts. These retailers, in contrast to the exclusive specialty shop with its high-margin operation, are after high volume, fast moving, popular-priced, moderate markup, and substantial inventory merchandise. The successful operation of these stores depends in large measure on their ability to secure popular brands of merchandise.

When the Merry Mart was opening its shoe department, the partners decided on handling Buster Brown shoes for the following reasons:

1. Potential Volume. If more Buster Brown shoes are sold in the United States than any other brand, then the Merry Mart should be able to sell more of this brand than any other brand which could be secured.

2. Popular or Budget Priced. The Merry Mart must be careful about handling low-priced merchandise. The chain stores, with their large purchasing power, can outbuy the Merry Mart on low-priced goods. Neither can the Merry Mart hope to build volume in a limited trading area of residents with moderate incomes if the store attempts to sell a high-priced shoe. The store must plan to sell a medium-priced shoe.

3. Quality and Guarantee. The independent retailer must stand behind the goods he sells. The brand selected must prove its advertised worth, and its quality must warrant the building of customer loyalty.

4. Eye or Style Appeal. There are brands which have good customer acceptance but lack progressive designing. One of the other

national brands offered to the Merry Mart excelled Buster Brown in styling but did not measure up in quality.

5. Protection Against Competition. There is no advantage to building up consumer habit and acceptance of a brand unless the Merry Mart will be protected from unfair competition. The store must get an exclusive right to the brand in its trading area, and the price on the shoe should be set for all the merchants in the vicinity regardless of the volume they may sell.

Not only in the shoe department, but in all the other departments, the partners limited their merchandise to one brand. Only under the following circumstances did they carry more than one brand:

1. Ample style selection could not be provided by one brand.
2. The brand selected was limited to a few special types of products within the line.

All products were in the moderate price range, except in a few cases where the top quality brand was only 15 per cent to 20 per cent more expensive. The difference in value to the customer in style and fit was so great as to make the price difference insignificant.

If the partners decided to sell the cheaper shoes, they would be changing their basic merchandising policies. In adding this shoe to their shoe department, they would be in direct competition with the chain stores and large department stores. Furthermore, they were worried that their regular customers might substitute the lower-priced shoes for Buster Brown products. Yet, they realized that they were losing a number of customers every day because they did not have a cheaper shoe to offer.

QUESTIONS

1. When would it be advisable for a small independent store to carry products in all price ranges?
2. What determines the number of brands in any line which an independent merchant should handle?
3. When should a store handling medium-priced goods also carry a low-priced line?
4. Evaluate the points which the Merry Mart used in selecting its brands? Are there any others which you would add?
5. How important do you believe national brands and fair trading are to the success of these small stores?
6. Should the Merry Mart add the cheaper shoes to its shoe department?

24 APEX HARDWARE COMPANY

Deciding to Handle a New Product Line

Apex Hardware Company, a full-service wholesaler, sold and distributed tools, builders' hardware, and a general line of shelf hardware, plumbing, and electrical specialties to the retail hardware and small mill supply trade. It distributed its merchandise to some two hundred accounts, and had a gross business of approximately $200,000 annually. It had expanded its business by constantly adding new lines in its field and giving price, service, and quick delivery to its customers.

The eastern district sales manager of a nationally advertised rubber-based paint, Dutton, suggested to the company president that Apex carry this line. He pointed out that this paint was an established brand, that every larger jobber in the field carried the line, and that his company constantly used national advertising directed at the consumer.

The shipments made to Apex would involve the following considerations:

1. The initial order must total $1,000, and all repeat orders must be the same amount to gain the minimum jobber's discount of 15 per cent.
2. To receive an additional discount of 5 per cent, Apex would have to purchase $3,000 carload lots at a time.
3. The fair-traded retail price of $4.49 a gallon would be guaranteed in the original contract for at least six months after delivery of the initial order.

The president asked for two weeks to study the product and to decide on the feasibility of taking on the line. With two of his salesmen, he devised a set of questions for the firm's customers, which, when answered, would help solve the problem whether or not to take on the proposed product.

The salesmen brought in the following answers to the questionnaire:

Questions	*Answers*
1. Do you carry Dutton paint?	153 out of 200 carry the brand.
2. What is the average quantity of Dutton paint you carry in terms of dollars and cents?	Average—$300.
3. How many times a year do you turn over this stock?	Average—Twice a year.
4. How many jobbers from whom you buy carry this line?	Average—Ten.
5. Do you buy Dutton paint from one jobber solely, or any one of several?	Fifteen out of 153 bought from one jobber exclusively.
6. Does every jobber sell at the same price?	Yes.

These answers crystalized several conclusions for the president.

1. Since one hundred and thirty-eight of the accounts carrying the line would buy from any of the jobbers calling upon them, total of approximately $80,000 of Dutton paint sales was available for solicitation.

2. Because an average of ten jobbers calling on these accounts carried Dutton paint, Apex could expect approximately $10,000 annually of Dutton business if Apex customers would divide their buying equally.

However, there were other considerations involved. One of the salesmen reported that many of Apex's customers preferred to buy their large seasonal orders from paint sundry jobbers and used hardware jobbers only to fill in on short colors. Also, a number of Apex's customers had been decreasing the size of their inventories and, in some instances, were beginning to mix their own paints.

Warehousing and trucking considerations entered into the problem. To carry a $3,000 stock would entail use of the entire second floor of Apex's small warehouse, and shipping in appreciable quantities would tax the capacity of the small truck used for delivery.

On the credit side, the sales job was essentially simple, once the salesmen learned the various colors. Because Dutton was nationally advertised, it was a call product and needed no specialized sales acumen on the part of either the wholesaler or the retailer. Another one of its advantages was that it posed no packaging problem for Apex because it came packed in cardboard cartons, four cans to a carton, and was shipped to the retailer in the same container.

QUESTIONS

1. Should Apex Hardware Company handle the Dutton line?
2. If Apex does decide to take on the line, should it order it in $1,000 or $3,000 lots?
3. How important is the fact that a number of the hardware stores were decreasing the size of their inventories?
4. What would have been your recommendation to Apex if Dutton Paints were not nationally advertised and the jobbers discount was 20 per cent instead of 15 per cent?

25 SWANK STORE, INC.

Evaluating the Principle of Liberal Returns

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

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

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

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

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

Among the items sold by the store are women's and misses' furs, coats, suits, dresses, gowns, housecoats, robes, blouses, sweaters, skirts, jackets, sportswear, gloves, and a variety of accessories; a complete line of boys' and young men's coats, men's haberdashery, suits, slacks, jackets, robes, sweaters, and accessories; a complete line of teenagers' and girls' suits, dresses, sportswear and accessories; a complete line of tots' and infants' clothing, infants' shoes, accessories, and layettes.

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

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

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

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

advises her to take the dress back. If we refuse to accept the dress, we will probably lose this lady permanently as our customer.

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

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

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

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

QUESTIONS

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

26 THE BAYLOR DEPARTMENT STORE

Analyzing Merchandise Turnover

The Baylor Department Store was located in a small midwestern town with a population of 15,000. The store had been in the Baylor family for eighty-five years, during which time it had been managed by five different members of the family. In 1952, upon the death of his father, John Baylor III took over the manager's job.

At the time John Baylor III became manager, he was 32 years old. He had graduated from college in 1942 and had served from that date until 1946 as an officer in an artillery outfit. When he was discharged from the service, he went to work for a large department store in Chicago and in 1952 was an assistant buyer in the men's clothing department.

His father had never believed in keeping very extensive records and had always operated the store on the basis of what he called "sound horse sense." It was his contention that a merchant did not need many records if he kept in close contact with his customers. The only information which was recorded was the data necessary to construct the yearly statements and the various tax reports.

The sales volume of the store had remained fairly constant from 1946 to 1952. In 1946, the store had done a volume of $160,000 and in 1952, sales amounted to $159,000. In 1952, the average inventory at retail amounted to $134,000, which gave the store a 1.2 turnover figure for the year.

All the employees of the Baylor store, with the exception of one clerk, were members of the Baylor family and had been working at the store for a period of ten or more years. When John Baylor III became manager, he immediately called the employees together and pointed out the necessity for some changes in operation. He was particularly concerned about the low turnover figure and emphasized that this situation must be improved.

The plan he outlined for increasing turnover included the following:

1. Avoid overbuying. To do this he asked the department heads to set up individual budgets and to plan on the amount they would

need for the entire year. The budgets were to be arranged on a monthly basis, and purchases were to be limited to 65 per cent of anticipated sales for each period so that the present inventory could be adjusted.

2. Discontinue scatter-buying. In the past, the Baylor executives had purchased from a variety of outlets. The department heads were told that in the future they must limit the number of outlets to one or two from whom they would purchase the bulk of their merchandise.

3. Limit duplication. Mr. Baylor found that the store was buying from a number of manufacturers who prepacked their goods and that the company was not permitted to specify sizes or colors in the limited quantities bought. For example, the tee shirt suppliers prepacked ½ dozen of a size, usually 2 blues, 2 browns and 2 greens. In this farming community, where the blue jean represented 80 per cent of a boy's wardrobe, the blue tee shirts outsold 4 to 1 the brown and green combined. The Baylor store had a dead stock of brown and green tee shirts that were not saleable. Mr. Baylor felt that it was vital to check suppliers and find out which company would be willing to ship orders which were 80 per cent to 100 per cent blue as specified.

4. Speculate in more style items. The Baylor executives had limited their stock primarily to the staple items. For example, in the shoe department, dress shoes for girls were carried in only black patent, white, and navy blue. Mr. Baylor recommended that the store carry other colors as well. He felt that while the blacks and whites could be purchased in all sizes and most widths, for advertising purposes it would be well to have some yellows and lavenders in just one width and one size range. This would dress up the shoe department and at the same time would show the customers that the store was style conscious. He recommended that this same principle be adopted by other departments as well.

5. Avoid accumulation of merchandise. His father had not followed any set policy of holding clearance sales, and as a result there was too much accumulation of dead stock. To avoid this in the future, Mr. Baylor gave orders that, with the exception of staple items, all merchandise was to be marked down one-third if it did not move within a period of ninety days.

6. Improve the general merchandising techniques. Too many lines had been carried which were not properly displayed in the Baylor

store. Also, too many items were not suitable for the trading area because they were not well-known brands and they were priced too high. Mr. Baylor recommended that the department heads study more carefully the needs of the people in the area and give specific comments as to how the whole merchandising program might be improved.

The department heads were not very enthusiastic about Mr. Baylor's plan and criticized it because it involved too much detail work. They indicated that they had all lived in the community for years and knew the wants and demands of the people in the area. Furthermore, while the turnover figure was low, it was necessary to carry a complete line of many of the items to satisfy the peculiar needs of a limited market. It was also their opinion that it was not a sound policy to have too many clearance sales because of the ill-will that could so easily develop. They emphasized that it was not a good practice to lower prices when merchandise did not move within ninety days in this farming community, because here sales fluctuated a great deal more than they did in Chicago.

QUESTIONS

1. How important is merchandise turnover to a store of this kind?
2. Evaluate Mr. Baylor's plan for increasing turnover. In what ways would you say that the plan might be modified or strengthened?
3. How important is limiting the number of outlets in increasing the turnover figure? How would you reconcile Mr. Baylor's recommendation that the department heads should speculate in more style items in a plan for increasing turnover?
4. Was Mr. Baylor right in placing so much emphasis on increasing turnover? What procedure would you recommend that the Baylor store adopt?

27 YONKER'S DEPARTMENT STORE

Comparing Central Purchasing to a Store Buyer

Because the volume of the budget dress department of Yonker's Department Store in Los Angeles had not increased in the same ratio as total store and ready-to-wear business, the executives of the store

questioned whether the department should continue on central buying from New York City. (See Exhibit I.)

Merchandise for the budget dress department was purchased in New York City by one of the country's largest budget dress central purchasing corporations, National Buyers, Inc. The New York City corporation was headed by Miss Gleason, a very capable budget dress buyer, who was extremely well known and respected in the New York City market. The only control on her purchasing was the projected six months' merchandise budget which she and the Yonker's merchandise manager had agreed upon.

The Yonker's budget dress department was under the direction of a department manager, Miss Patrick. Miss Patrick's job was mainly to supervise the selling of the merchandise bought and shipped from New York City. Miss Patrick also kept the New York City buyer continuously informed on trends of styles that "checked" in the department. ("Checked" is a term used in dress departments to describe the fast, initial selling of a new style, that is, selling 4 out of 8 dresses the day they hit the selling floor.)

A complete unit control system was kept in New York City for the New York City buyer's use, and a duplicate control was kept in Yonker's for the department manager's use. Detailed selling information was forwarded to New York City, daily as well as weekly, on hand and on order recap by fabric and price line. Miss Patrick also wrote Miss Gleason at least twice a week giving her more details on what type dresses she thought the department needed.

The budget dress market is known as the fastest changing and most alert in the garment trade, because original styles or best selling dresses at any price line are copied with reckless abandon and speed. The complexion of the budget dress market can change almost overnight. The budget dress industry is made up of manufacturers whose dresses retail from $8.98 to $14.98.

Although the department had not grown volume-wise with the total store, it had shown the following departmental profits:

	Per Cent
1949	5.20
1950	2.83
1951	2.01
1952	1.06

The cost of the New York City central purchasing was 3 per cent of the net purchases made for the budget dress department, which averaged 1.2 per cent of net annual sales of the store. Miss Gleason maintained that the New York City central purchasing, which operated seventy budget departments in seventy various stores throughout the United States, represented big volume in the budget dress market and could insist on (1) manufacturers' giving money for advertising allowances, (2) money to offset MD's in slow-selling merchandise, (3) special purchases of merchandise $1 and $2 less than the quoted market price, and (4) returns of slow-selling dresses to the manufacturers. Miss Gleason also emphasized the fact that she and her staff were actually in the New York City dress market daily and could watch selling from the seventy different stores controlled by National, which kept her very well informed on all "hot style numbers" and up-to-date on the activity of the New York City market.

The merchandise manager of Yonker's agreed that National Buyers, Inc., sent the department money for advertising and slow-selling merchandise and permitted the return of slow-sellers; however, it was his opinion that these practices were becoming so common in the market that if Yonker's had its own buyer, she could obtain the same benefits. The merchandise manager conceded that National was very well informed on the New York market, but Yonker's was one out of seventy centrally operated departments that Miss Gleason had to worry about. Therefore, he felt Yonker's received no special attention. Furthermore, the merchandise manager felt many of the dresses sent to Yonker's by National were not suitable for its customers. Although Miss Gleason had made a trip to the West Coast, he believed that a buyer living in Los Angeles would have a better feeling for the type of merchandise that sells best in Yonker's store. It was his opinion that the job being done in Yonker's budget dresses was under-developed by at least 25 per cent. He realized that dropping the central dress operation would save the 3 per cent charge of net purchases but also would necessitate at least seven New York City trips of a week each for a newly appointed Yonker's buyer. The store estimated that an average buying trip cost $400.00 for transportation and $17.00 per day expenses for the time the buyer was not traveling and in the New York market. The budget dress depart-

ment's markdowns of merchandise for the four-year period, 1949-1952 were as follows:

	Per Cent of Net Sales
1949	6.4
1950	10.82
1951	9.98
1952	14.07

The operation of the department, as far as sales planning or special events were concerned, was mainly controlled by the Yonker's merchandise manager and Miss Patrick. If a store-wide sale was planned, dresses at a special price to fit into such an event were requisitioned by Yonker's to Miss Gleason in New York City, who then made the selection.

Typical operating expenses of the department, such as advertising, sales help, space rental, and delivery expense, were all borne by Yonker's. The decision to take markdowns rested with Miss Patrick with the approval of Yonker's merchandising manager.

EXHIBIT I

COMPARISON OF THE BUDGET DRESS DEPARTMENT VOLUME WITH THE TOTAL STORE VOLUME

(1945-1948 = 100%)

	Total Store	*Budget Dress Department*
1949	100.3	102.4
1950	110.2	89.8
1951	111.5	102.1
1952	111.2	102.5

QUESTIONS

1. What are the important advantages and disadvantages of using a central purchasing plan for the budget dress department?
2. What are the main advantages and disadvantages of the store using its own buyer for the department?
3. How do you account for the fact that the budget dress department sales decreased to 89.8 per cent in 1950 and yet the department made a profit of 2.83 per cent?
4. Of what significance are the markdown figures as given in the case in deciding on whether or not to continue the use of central purchasing?
5. Should Yonker's continue to use New York central purchasing for its budget dress department or appoint its own buyer?

28 THE VALLEY CONSTRUCTION MATERIALS COMPANY

Planning a Retail Operation

At the beginning of 1953, the executives of the Valley Construction Materials Company considered closing a branch in Huberville, Pennsylvania. The company had long been identified with the construction industry and had specialized in selling to industrial firms and large contractors through a chain of lumber yards located in major eastern cities. The company had never made an attempt to develop retail business and had operated from warehouses located near industrial centers where rail and truck transportation was convenient.

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

Early in 1949, when several large government contracts were given to small manufacturing establishments in Huberville, a major construction boom started because the several manufacturing plants located there had to enlarge their plants. Several thousand workers had to be attracted to the area, and thus, a residential development of 2,500 dwellings was undertaken. The Valley Construction Materials Company established a branch in Huberville in order to give better service to several contractors in the area who had substantial construction contracts. During 1949, 1950, and 1951, the Huberville branch was highly profitable. But during 1951, most of the planned

construction was completed, and during 1952, the branch operated at a loss.

The Huberville branch had been housed in a temporary structure on rented land. The owner of the land was willing to build a suitable structure for permanent occupancy for a cash payment of $10,000 and a percentage lease, starting with 2 per cent of sales and rising by ½ per cent over three-year intervals to a top of 4 per cent of sales. Huberville's economic development seemed to be permanent, and it seemed likely that there would be a steady, if slow, population increase for a number of years. By January 1, 1953, Huberville had a population of nearly 25,000. Retail facilities had not yet expanded to supply adequate shopping service to the community. There was one small hardware store, and a lumber yard which carried some hardware items.

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

QUESTIONS

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

29 VINCENT REALTY COMPANY

Planning a Regional Shopping Center

Mr. Carlson, president of California Subdividers, approached Mr. Vincent of the Vincent Realty Company and offered him $4,500 per acre for the remaining thirty acres in a tract of land which the Vincent Company had set aside for extension of a shopping area. Mr. Carlson planned to build homes in the $11,500 to $13,500 price range if he was able to buy the property.

The land was located on the outskirts of San Jose, California, and was approximately four miles from the central business district of that city. Over a period of ten years, a number of industrial firms, such as the Ford Motor Company and General Electric Company, had constructed plants in the area. As a result, there was a continued influx of new workers, and homes were at a premium.

The thirty acres were directly across the street from the shopping area that Mr. Vincent started in 1949. When Mr. Vincent purchased the property in 1948, he envisioned the development of a regional shopping center on this land. He believed that there would be a population of about 250,000 people to draw upon and that this number would support a department store and other stores which would offer shopping goods in full depth, fashion items, and home furnishings.

Mr. Vincent had an architect draw the master plans for the regional center, and he began to construct the buildings in 1949. By 1954, he had one of the leading neighborhood shopping centers of the vicinity. There were seventeen stores in the center with a total of 21,000 square feet of building space and 90,000 square feet of parking space, adequate for 300 cars. The stores had a total sales volume in 1953 of $2,500,000.

The results in 1953 pleased Mr. Vincent so much that he planned to make a concerted effort in 1954 to try to finance further expansion. In 1953, he had contacted a number of department stores, but whereas several of them made analyses of the potentiality of the location, none indicated that it would establish a store in the area.

The plan for the Vincent Realty Center had been drawn so care-

fully by the architect that the parking ratio between parking and building space would be about 3.5 to 1 when the project was completed. Although the property was not on a main highway, it was located at the focal point of Santa Clara County and was within easy access of two of the main highways.

Mr. Carlson predicted at the time he offered to buy the property that it would eventually be on the fringe of the major housing area and, therefore, was not suitable for a regional center. He did not feel that the location would ever develop into more than a neighborhood shopping center. (In a neighborhood shopping area there are usually from 10 to 15 stores on a 10- to 15-acre site with about 1,000 or more families in the area, whereas in a regional shopping area there are from 50 to 75 stores on a site of from 50 to 80 acres servicing over 40,000 families. In the regional centers there are usually one or two department stores, and shopping goods are offered in full depth.)

While Mr. Vincent was trying to decide whether or not he would accept Carlson's offer, Macy's announced that the company planned to start construction on its property within the next three months. The location of Macy's store was about five miles from the Vincent property on the west side of the city of San Jose. The projected plans of the state highway department called for a major highway to pass directly in front of the shopping center in which Macy's would be located. Mr. Vincent's center was located on the northeast side of the city.

After this announcement was made, Mr. Vincent hired the San Francisco Bureau of Research to determine whether or not the San Jose area would develop rapidly enough to support two major shopping areas within the near future.

The San Francisco Bureau made an analysis of the area and presented the following report:

The Vincent Realty Company Shopping Center
of
Metropolitan San Jose, California

Vincent Shopping Center is an expanding development immediately northeast of the city of San Jose, and southeast of the city of Santa Clara. It is about one mile from Census Tract #9, of San Jose, which has the highest rated buying power per family in the City.

The developers have reserved an area for a regional shopping district,

now under development. It is approximately four miles from the central business district of San Jose.

The authorized purpose of this survey is to explore and analyze the retail trade possibilities of Vincent Realty Shopping Center. This has been done by inspection, and by a comprehensive study of retail trade in San Jose, including a twenty-year history of mercantile activity of Santa Clara County—in relation to the entire San Francisco Bay District.

Metropolitan San Jose

Metropolitan San Jose—Santa Clara County—has aptly been called the "San Fernando Valley" of the Bay District. In size and potentialities, however, it is vastly greater. There is a gross County area of 1,305 square miles. The area suitable for urban development exceeds 400 square miles. This is nearly three times the area of the San Fernando Valley, and nine times the land area of San Francisco. The combined area of the ten incorporated cities in the County is 30 square miles. By similar urbanization, the County can accommodate a population of 2,500,000. The 1953 population was 350,000.

Relation of the San Francisco Bay District

A circle with a 100-mile radius from San Jose encloses most of twenty central California counties. Among the twenty counties, Alameda, San Francisco, Santa Cruz, Sonoma, and Yolo, in particular, made less than State average population gains, 1940 to 1950. San Francisco's proportion of the twenty-county total population declined from 26.91 per cent to 20.95 per cent.

It is evident from this and collateral studies that the counties of San Francisco, Alameda, Contra Costa, and San Mateo, in particular, have "filled up." They lack room for new industry and for additional housing on spacious lots. Santa Clara County, on the other hand, increased her 1940 population from 174,959 to 350,000 in 1950, or at a rate of 7.2 per cent above the twenty-county average. This growth would have been greater except for building restrictions during the war.

Population growth of San Francisco in the Bay District henceforth must of necessity be southerly, along the Peninsula. Indeed, there is no other desirable space available and none in the State more suitable for urban development. The momentum of the Bay Area growth, arrested by land scarcity in the other counties, now strongly tends to accelerate development in Santa Clara County.

Population Trends

California's 1950 population exceeded that of 1940 by 3,582,683. This gain was greater than the gain of the previous twenty years. It was due to industrial expansion, and particularly to employment opportunity

afforded by war production; hence, it was largely concentrated in or near areas suitable for manufacturing.

In the Bay District, these 1940-50 population gains are shown by counties in Table I.

TABLE I

POPULATION GAINS 1940 TO 1950—BAY DISTRICT POPULATION

County	1940	1950	Gain	Per Cent Gain
Alameda	513,011	733,990	270,979	43
Contra Costa	100,450	297,439	196,989	196
Monterey	73,032	129,911	56,879	77
Napa	28,503	46,373	17,870	62
San Francisco	634,536	760,753	126,217	20
San Mateo	111,782	234,080	122,298	109
Santa Clara	174,949	288,939	114,989	66
Santa Cruz	45,057	65,920	20,863	46
Total	1,681,320	2,557,404	876,084	52.1

The lower rate of increase in San Francisco and Alameda Counties is evidence of their compact development and lack of room for growth, even during this period. Contra Costa County made a spectacular gain because of her strategic position in relation to war industries, but is now static and tax-afflicted. San Mateo County caught the overflow which could not be accommodated in San Francisco. Santa Clara County, next in point of distance, GAINED ALMOST AS MANY INHABITANTS—MORE THAN THE MORE DISTANT MONTEREY AND SANTA CRUZ COUNTIES COMBINED.

Cities Are Filled

In Alameda County the cities of Alameda, Albany, Berkeley, Hayward, Emeryville, Oakland, Piedmont, and San Leandro are filled to capacity. In Contra Costa County every city is filled. Richmond, the largest city, has a population of 7,516 per square mile of gross area. In San Mateo County, Burlingame, Daly City, Menlo Park, Redwood City, San Bruno, San Carlos, San Mateo, and South San Francisco are practically filled. In Santa Clara County the same situation is found in Mountain View, Palo Alto, San Jose, and Sunnyvale.

This overflowing of the cities has forced urbanization into unincorporated areas of the Bay District. See Table II.

The proportion of the total population in unincorporated areas in San Mateo and Contra Costa Counties was less in 1950 than in 1940, indicating for them an all-inclusive land scarcity.

A further analysis of the recent Census shows that in relation to the total population gain of the past decade, 57 per cent of Alameda County's growth was outside the city; 39 per cent of Contra Costa's; 18.4 per cent of San Mateo's; and 55.7 per cent of Santa Clara's. These

four, and San Francisco County, gained a total of 780,472 between 1940 and 1950. That momentum of urbanization must now slow down OR ELSE CONCENTRATE IN SAN CLARA COUNTY.*

TABLE II

POPULATION OUTSIDE THE CITIES—BY COUNTIES

County	*Population Outside the Cities*	*Per Cent of Total*
Alameda	169,967	23.1
Contra Costa	121,634	40.8
San Mateo	51,673	22.0
Santa Clara	129,091	44.6
Total	464,365	29.8

Housing

Dwelling units in Santa Clara County in 1940 and 1950 were distributed as appears in Table III.

TABLE III

DWELLING UNITS

Area	*1940*	*1950*	*Gain*	*Per Cent Gain*
Santa Clara County	56,406	92,315	35,909	63.6
Mountain View	1,248	2,242	994	79.6
Palo Alto	5,988	8,792	2,804	46.8
San Jose	22,881	31,224	8,343	36.4
Santa Clara	2,030	3,439	1,409	69.4
Sunnyvale	1,280	3,187	1,907	148.9
Remainder of County	22,979	43,431	20,452	89.0

San Jose and Palo Alto, the two most populous cities of the County, show lesser gains because of inside land scarcity or restrictions.

San Jose Is a Regional Retail Market

Retail sales of San Jose in 1953 amounted to $201,000,000 as per Table IV, but a large proportion of this trade was with customers beyond the city limits. The resident retail buying power of the City now totals $95,000,000. This means that about 53 per cent of the retail business of San Jose merchants was with customers living outside the City.

* Santa Clara County was designated as the *San Jose Metropolitan Area* by the U.S. Census Bureau in reporting the 1948 Census of Business.

TABLE IV

1948 RETAIL SALES OF METROPOLITAN SAN JOSE, SAN JOSE CITY, AND SAN JOSE'S RESIDENT POTENTIAL

(In Thousands of Dollars)

Line	1948 Actual Sales		
	Metropolitan San Jose	*San Jose City*	*Resident Buying Power San Jose City*
FOOD GROUP	$65,901	$30,442	$20,189
Markets	60,016	27,521	18,386
Candy, confections	730	387	224
Bakery products	2,260	1,012	692
Delicatessen }	450		138
Other food stores }	2,445	1,522	749
EATING, DRINKING PLACES	21,785	10,515	6,674
Restaurants, lunch counters	14,212	6,755	4,354
Drinking places	7,573	3,760	2,320
GENERAL MERCHANDISE GROUP	30,311	23,217	9,286
Department stores, etc.	24,819	19,431	7,603
Variety stores	5,492	3,786	1,683
APPAREL GROUP	24,969	16,622	7,649
Men's, boys' stores	4,433	3,203	1,358
Family clothing stores	4,322	2,665	1,324
Women's ready-to-wear	9,900	6,847	3,033
Millinery, specialty	1,110	634	340
Shoe stores	3,585	2,451	1,097
Children's, infants' wear }	407		124
Other apparel stores }	761	822	373
FURNITURE, APPLIANCES, ETC.	17,925	10,362	5,492
Furniture stores	8,166	5,029	2,502
Floor covering stores	995	928	304
Drapery, upholstery	385	{	118
China, glassware, etc.	1,003	{	307
Antique stores	172	{	52
Other home furnishings	521	{ 1,207	160
Household appliances	5,640	2,537	1,728
Radio stores	1,043	661	321
AUTOMOTIVE GROUP	40,790	22,403	12,497
GASOLINE SERVICE STATIONS	14,930	5,928	4,574
LUMBER, BUILDING, HARDWARE	28,151	10,273	8,624
Lumber, building materials	15,833	4,943	4,851
Paint, glass, wallpaper	1,202	{	368
Heating, plumbing, electrical	1,291	{ 1,184	395
Hardware, etc.	9,825	4,146	3,010
DRUG AND PROPRIETARY STORES	9,425	5,273	2,887
LIQUOR STORES	3,249	1,659	995

Line	Metropolitan San Jose	San Jose City	Resident Buying Power San Jose City
SECOND-HAND STORES	$ 724	$ 318	
OTHER RETAIL STORES	21,807	10,722	$ 6,905
Jewelry stores	3,382	2,648	1,036
Book stores	1,411	738	432
Stationery stores	428		131
Sporting goods stores	714	479	219
Gift, novelty, souvenirs	384	51	118
Music stores	1,560	1,304	478
Camera, photographic	909	583	279
All other retail stores	13,019	3,610	4,212

Sub-totals do not agree in all cases with total items in group, due to sales being withheld to avoid disclosure of some lines.

New Methods of Marketing

A revolution in retail marketing methods is having a profound effect upon the older cities of California. In Los Angeles, for example, low density housing development has spread the city's inhabitants over an area of some 200 square miles. Most of the interurban and street railway lines have been abandoned, and more than 90 per cent of the population provides its own transportation to market centers. It would be physically impossible for all the people of Los Angeles to do their shopping in the downtown business district; consequently, merchants have moved, and are moving, from old-style establishments without parking facilities TO DECENTRALIZED REGIONAL SHOPPING AREAS WITH ADEQUATE FREE PARKING.

In 1938, Los Angeles downtown department stores had 54.0 per cent of the department store business of Los Angeles County, and 68.4 per cent of that within the City. In 1948, their proportion of total was 36.1 per cent of the County and 54.6 per cent of the City. In 1950, they were doing less than half the business within the City, and only one-third of the County total.

This decentralization is further indicated by the fact that in 1934 bank savings and time deposits in downtown banks amounted to 71.7 per cent of the City total. In 1944, however, it was 42.18 per cent of the total and in 1950 only 39.0 per cent. This means that the central shopping district of downtown Los Angeles is becoming merely one of several regional centers, some of which will have passed it in total volume within the next decade.

We have carefully analyzed the sale of retail merchandise in the twenty counties within 100 miles of San Jose, and find such decentralization trends to be even more marked in San Francisco.

Analysis of Retail Trade in San Jose

Food stores: San Jose food store sales exceed the State average per capita by $68.48, or 27 per cent. The per capita average of $320.29 is considerably better than San Francisco's average of $285.39.

Eating and drinking places: Eating and drinking places of San Jose, with per capita sales of $110.63, compare with the State average of $95.73, and with the Santa Clara County average of $75.40.

General merchandise: In the general merchandise field, Santa Clara County per capital sales of $104.90 compare with the State average of $123.55. This indicates a loss to San Francisco, where such sales average $192.31 per capita. In the city of San Jose, however, such sales average $244.27. This exceeds the San Francisco average and is indicative of the fact that Santa Clara County merchandising is now largely centered in the San Jose central district. City stores are capturing 61 per cent of their trade from outside the city limits, notwithstanding the various short-comings of the central shopping area.

Department stores: Department stores sales average $190.00 per capita, or more than twice the State average of $87.77.

Variety stores: Variety stores likewise are capturing more than one-half of their trade from outside the city limits, and this volume is vulnerable to more convenient facilities to the west.

Apparel: In apparel, Santa Clara County's average sales of $86.42 per capita compare with the State average of $73.51 per capita. San Jose's portion, amounting to $174.88 per capita, compares with San Francisco's average of $159.07.

In men's and boys' apparel, San Jose sales were twice the State average; in family clothing stores, sales were 2.8 times the State average; in women's ready-to-wear stores, the average of $72.04 per capita compared with $26.76 as the State average per capita.

Shoe stores: Shoe store sales in San Jose, averaging $25.78 per capita, compare with a State average of $11.89. More than one-half of this trade is from outside the city limits.

Automotive stores: Automotive sales in Santa Clara County average $141.17 per capita, 14 per cent below the State average of $164.52. This difference is largely due to the fact that heavy trucks and buses are distributed from Los Angeles and San Francisco. In San Jose, however, automotive sales average $235.71 per capita, compared with $176.05 in San Francisco. Here again more than one-half of the volume is from outside city limits, and therefore vulnerable to developing competition.

Service stations: Gasoline service stations of San Jose average $62.37 per capita, compared with the State average of $56.66. These sales vary

according to the number of through highways and the distance driven to work and to shop.

LUMBER: Lumber yards of the County had 1958 sales of $52.00 per capita, compared with the State average of $39.74. Sales in San Jose averaged $108.08, compared with $34.44 in San Francisco. This clearly indicates the proportionally more rapid development in Santa Clara County.

HARDWARE: Hardware stores of the County had per capita sales of $22.94, compared with the State average of $15.57; sales in San Jose averaged $35.38. The hardware business should continue better than average in this County for many years, and will be best in convenient locations close to active development.

DRUGS: Drug store sales in Santa Clara County averaged $32.62 per capita, compared with the State average of $34.82. Sales in San Jose averaged $55.47, representing an unusual capture.

It has been demonstrated in Los Angeles County, for example, that modern drug stores, with adequate free parking, will do an exceptional business without any pedestrian patronage. One drive-in drug store in Los Angeles County does twice the volume of business of a companion store in the central downtown district.

LIQUOR STORES: Sales of liquor stores in Santa Clara County average $11.24 per capita, compared with the State average of $22.04. San Jose's liquor sales averaged $17.45 per capita, of which 41 per cent was captured.

JEWELRY: Jewelry sales of the County averaged $11.70 per capita, compared with the State average of $10.71. San Jose jewelry store sales averaged $27.86 per capita, of which 61 per cent is attributed to outside customers.

OTHER RETAIL STORES: Other retail store sales of the County, including jewelry, averaged $75.47 per capita, compared with the State average of $70.50. San Jose stores captured about 35 per cent of this miscellany.

Conclusion

Residents of the Vincent Shopping Area have average annual incomes above $5,000 per year. The urbanization of the County is proceeding most rapidly around San Jose. These facts command the recognition of all who are interested in immediately exploiting timely opportunity.

Food sales in the County during 1948 amounted to $65,901,000. *Stores outside of San Jose had 53.9 per cent of the business,* compared with 48.6 per cent in 1939. The trend is toward one-stop shopping from automobiles. Food is the biggest and most compelling shopping item. Where food is sold there is a potential demand for other goods and services in the following average proportions per $100 of food sales.

TABLE V

Food store sales	$100.00
Department stores	34.85
Apparel, shoes	29.19
Furniture, appliances	26.73
Drugs	13.82
Hardware, sporting goods	7.28
Variety stores	6.69
Jewelry	4.25
Books, stationery, etc.	2.70
Cameras, gifts, photography	1.87
Cleaning and pressing	1.76
Beauty shops	1.66
Shoe repair shops	.72
Amusements	9.67

The development of the area is taking place so rapidly, that it is our opinion that Metropolitan San Jose will be large enough within the next ten years to support two additional major shopping areas. Since it appears that the Macy's center will be completed within the near future, it appears advisable that the Vincent Realty Company make every effort to develop further its shopping center immediately. If the company fails to do this, it may find it extremely difficult to change the customers' habits of shopping at the other regional center at a later date.

Mr. Vincent was pleased with the report and said that it backed up his contentions fully. Although new homes had not been constructed as rapidly as he had envisioned, he was confident that this would take place. He informed Mr. Carlson that he would not sell him the thirty acres. He decided, therefore, to sell other property which the company held and to use the proceeds to begin the construction of a building which would have 150,000 square feet of space. He planned to lease this building for a department store at a rental rate of 2½ per cent. Because the average sales of the seventeen stores (which included two supermarkets) in his area were $120 per square foot, he felt that any good department store operator would be able to average better than $50 per square foot in the center. He had been told this was the mimimum amount that had to be secured by department stores. Mr. Vincent believed that once the department store was located in the area, it would be relatively easy to persuade other merchants to open stores.

QUESTIONS

1. In your opinion, what other information should the San Francisco Bureau of Research have included in its report?
2. What are the advantages and disadvantages of a regional shopping center being located on a crowded highway?
3. What method might Mr. Vincent have used to check where new homes would be constructed?
4. How large a population must an area embrace in order to have a central business district, a number of neighborhood shopping areas, and one or two regional shopping centers?
5. Was Mr. Vincent accurate in his statement, "that since the average sales were $120 per square feet, it would not be difficult for a department store to average $50 per square foot of building space"?
6. What action would you have recommended that Mr. Vincent adopt?

30 L. JACKSON AND SON DEPARTMENT STORE

Advisability of Establishing a Branch Store

L. Jackson and Son Company, Inc., the outgrowth of a store established in 1889, operates one of the two largest department stores in a western city. The store carries a broad line of merchandise of a medium and higher price class and had a sales volume for the year ended January 31, 1953, of about $6,250,000. The store, which has been remodeled throughout, occupies a half block in the downtown shopping district, and serves a metropolitan population estimated at over 500,000 persons. The company also operates a parking lot, which is about a block from the store.

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

partment store and numerous other shops located in the downtown and other shopping districts of the city.

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

The company, together with approximately two hundred other leading department stores, is affiliated with a leading buying group which has buying offices in Los Angeles and New York. This organization is engaged in many activities connected with retailing, among them the actual buying of merchandise on behalf of itself and its affiliates, the furnishing of statistical information with respect to their operations, the furnishing of general information and expert advice arising out of research into substantially all phases of the department store business, and the providing of extensive marketing service and information covering the major markets of the world.

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

In April, 1953, the executives of the Wilton Company, one of the country's largest chain stores, announced that they planned to establish a $6,000,000 branch store on a site in a new suburban shopping area about three miles from Jackson's store. The Development Company which had sold the property to Wilton tried to interest Jackson's in opening a branch store in this same area, and offered the company the opportunity of taking an option on a satisfactory site next to Wilton's.

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

Mr. Jackson was of the opinion that if he continued an aggressive merchandising program, he could continue to increase sales volume in his present location and maintain his position in the market. He

believed that having two stores in such close proximity would not appreciably increase sales.

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

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

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

EXHIBIT I

L. Jackson and Son Co., Inc.

March 26, 1953

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

We submit herewith our annual report for the fiscal year ended January 31, 1953, including Balance Sheet and Statement of Income and Expense, which has been prepared by our Certified Public Accountants.

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

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

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

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

Most sincerely,

L. B. Jackson
President

EXHIBIT II

BALANCE SHEET
L. JACKSON AND SON CO., INC.
January 31, 1953

ASSETS		
Current Assets:		
Cash on hand and on deposit		$ 60,850.00
United States Government bonds—at cost..		15,000.00
Accounts receivable—trade:		
Current	$490,000.00	
Installment	250,000.00	740,000.00
Merchandise inventory		900,000.00
Total Current Assets		$1,715,850.00
Property and Other Assets		425,000.00
		$2,140,850.00
LIABILITIES		
Current Liabilities:		
Accounts payable	425,000.00	
Notes payable	90,000.00	$ 515,000.00
Federal Taxes in income		95,000.00
Total Current Liabilities		$ 610,000.00
Bonds Outstanding		50,000.00
Capital		
Capital Stock and Surplus		1,480,850.00
		$2,140,850.00

EXHIBIT III

STATEMENT OF PROFIT AND LOSS AND RETAINED EARNINGS
L. JACKSON AND SON CO., INC.
Year Ended January 31, 1953

Net Sales		$6,250,000.00
Cost of Goods Sold	$4,250,000.00	
Expenses	1,810,000.00	6,060,000.00
		$ 190,000.00
Other Income		60,000.00
Profit Before Federal Taxes		$ 250,000.00
Federal Taxes on income (estimated)		95,000.00
Net Profit		$ 155,000.00
Retained earnings at Jan. 31, 1952		700,000.00
		$ 855,000.00
Less Dividends		50,000.00
Retained Earnings at Jan. 31, 1953		$ 805,000.00

Notes to Financial Statements

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

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

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

EXHIBIT IV

Accountants' Report

We have examined the balance sheet of L. Jackson and Son Co., Inc. as of January 31, 1953, and the related statement of profit and loss and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of profit and loss and retained earnings present fairly the financial position of L. JACKSON AND SON CO., INC., at January 31, 1953, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Doe and Smith
Certified Public Accountants

March 21, 1953

QUESTIONS

1. Do you believe Mr. Jackson could continue to maintain his volume of business at his present location?
2. What effect would the location of a branch store next to Wilton's have on the sales at the downtown store? Is Mr. Jackson's comment that his customers would divide their purchases between the stores valid?
3. How important is it to Mr. Jackson in making his decision that

some other department store would take the location if he decides against it?

4. How can the downtown stores meet the competition of the chain stores which are building department stores in the outlying shopping areas?
5. Should Mr. Jackson establish a branch store so close to his main store? Why or why not?

31 THE JONES COMPANY

Use of Open-to-Buy Data

Miss Carlson was the buyer of the dinnerware department in the Jones Department Store. When she had been with the organization for a year, the management told her that they wanted her to raise the level of the department by obtaining new popular lines and to stimulate sales through a well-rounded promotional program on the best new items.

Because Miss Carlson had been a dinnerware buyer for many years, she used her knowledge to good advantage and did obtain new lines which, with the promotional program, gave the department a substantial sales increase, as indicated by the departmental statement for dinnerware (Schedule I) for the month of October.

During early November, Miss Carlson had an opportunity to add a new line, which would give her the assortment needed, but it meant the immediate placing of initial orders totaling $6,000 at retail. In looking at the October 31 Open-to-Buy report (Schedule II), she recognized that she had committed herself for the Christmas Season and was overbought for November, December, and January. She felt that this was caused by her stock being planned too low.

She was convinced, however, that the addition of the new line was important and would allow her additional volume. She discussed the problem with the merchandise manager, who also felt that, although the department would be in a considerably overbought condition, the benefits would be substantial; therefore, he instructed her to prepare the orders.

After Miss Carlson had prepared the orders and signed them, she forwarded them to the merchandise manager for his signature.

The order procedure in the Jones Store required that the final confirmation be made by the general manager or, in his absence, by the controller. At this time, Mr. Kilpatrick, the general manager, was in the East on business and was not expected back until the 18th of the month; therefore, the merchandise manager forwarded Miss Carlson's orders to Mr. Johnson, the controller, for his approval.

After reviewing the current Open-to-Receive (Schedule III) and the Open-to-Buy reports, and the Departmental statement, Mr. Johnson called Miss Carlson and the merchandise manager to his office and told them that he could not approve the orders. He said that, although the department was accomplishing the goal set for it as far as sales were concerned, the stock position was greatly out of line; unless a substantial sales increase occurred in November and December, there was no chance of arriving at the planned stock of January 31, as shown on the Merchandise Plans (Schedule IV).

He told them that holding the inventory in line was of major importance, and unless it was controlled it would mean a substantial loss to the department in markdowns. He suggested that they concentrate on moving the slow lines, which apparently were glutting the stock, and hold any further addition of lines until the stock was in a much more favorable position.

QUESTIONS

1. How do you account for the fact that, although October sales in the dinnerware department increased 46 per cent over the prior year, the department operated at a 2.4 per cent loss?
2. What is the significance of an open-to-buy report? How can it be used most effectively?
3. What is the purpose of making a retail merchandise budget?
4. From the information given, what would you say were the chief weaknesses in the dinnerware department?
5. Did Mr. Johnson, the controller, act wisely in refusing to approve the orders?
6. Would you recommend that the controller develop any additional data for the department?

SCHEDULE I

DEPARTMENT STATEMENT

STORE The Jones Company

(Dollars Shown to Nearest $) DEPT. NAME Dinnerware MONTH October DEPT. NO. 259

PLAN		ITEM	MONTH				YEAR TO DATE			
			THIS YEAR		LAST YEAR		THIS YEAR		LAST YEAR	
			AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
	1.	Net Sales & % Change	7193	46.3	4918	1.1	52665	11.1	47421	.5
	2	% To Consol. Total*	—	—	—	—		1.6		1.5
	3	Inventory-Retail Feb. 1st.*	—	—	—	—	35800		28950	
	4	Purchases-Retail & % Markup	11832	45.0	5588	48.2	108021	44.3	82073	46.2
	5	Inventory-Cost Feb. 1st.*	—	—	—	—	21480		17370	
	6	Purchases-Cost	6108	54.9	2897	51.8	58835		43015	
	6A	Mdse. Transp. & % Cost Purchases	392	6.4	160	5.5	1358	2.3	1120	2.8
	6C	Total Cost (Feb. 1st Inv.+Transp.+Purchs)	—	—	—	—	60193	55.7	44135	53.8
	7	Markdowns-Retail	942	13.1	45	.9	3434	6.5	2505	5.8
	8	Employee Discounts-Retail	57	.8	34	.7	479	.5	2371	.5
	9	Shrinkage-Retail								
	10	Total Retail Deducs. (1+7+8+9)	8192		5037		56900		49688	
	11	Inventory-E.O.M.-Retail*	—	—	—	—	51121		32385	
	12	Outstand. Orders-E.O.M.-Retail*	—	—	—	—	11100		8200	
	13	Total Commitm'ts-E.O.M.-Retail*	—	—	—	—	62221		40585	
	14	Inventory-E.O.M.-Cost*	—	—	—	—	28485		17413	
	15	Cost of Mdse. Sold	4652	64.7	2648	53.8	31708	60.3	26721	56.3
	16	Workrooms-Profit or Loss	—		—		—		—	
	17	Gross Margin (1-15±16)	2541	35.3	2269	46.1	20957	39.8	20699	43.6
	18	Cash Discount & % To Cost Purchases	82	1.3	34	.6	297	.5	196	.4
	19	Gross Mdse. Profit (17+18)	2623	36.6	2303	46.7	21254	40.3	20895	44.1
	20	Selling Salaries	628	8.7	379	7.7	4402	8.4	3639	7.7
	21	Stock Clerk Salaries	128	1.8	57	1.2	1361	2.6	1595	3.4
	22	Buying Salaries	244	3.1	177	3.6	2438	4.6	1822	3.8
	23	Newspaper Advertising	202	2.8	164	3.3	1715	3.3	2412	5.1
	24	Mfg. Adv. Allowance-Credit	--				244	.5	442	.9
	25	Direct Mail Advertising								
	26	Window & Sign Expense								
	27	Travel Expense	--		5	.1	14	.3	500	1.1
	28	Delivery Expense	109	1.5	82	1.1	761	1.4	652	1.4
	29	Total Direct Expense	1291	17.9	864	17.6	10447	19.8	10291	21.7
	30	Total Indirect Expense	1501	20.9	1330	27.0	11420	21.7	11870	25.0
	31	Total Expense	2797	38.9	2197	44.6	21867	41.5	22161	46.7
	32	Operating Profit	(174)	(2.4)	109	2.2	(613)	(1.2)	(1266)	(2.7)
	33	Average Sale	6.91		6.85		5.94		5.80	
	34	Transactions-Gross	1108		719		7233		8176	
	35	Returns & % Gross Sales	462	60	392	7.4	2149	3.7	1920	4.0
	36	Turnover Rate*	—	—	—	—	1.10		1.6	
	36A	Stock Sales Ratio*	—	—	—	—	7.6		6.5	
	37	Net Sales % to Total Store*	—	—	—	—	1.65		1.55	
	38	No. of Pkgs. Delv'd & % Gross Trans.	200	18.0	130	18.1	2256	24.4	1500	18.0
	39	Sales Per Sq. Foot-Spring Season*	—	—	—	—	14.40		12.00	
	39A	Sales Per Sq. Foot-Year*	—	—	—	—	21.00		19.00	
	40	Inv. Plus Unchg'd Pur.-Retail Feb. 1st*	—	—	—	—	41800		34190	
	40A	Inv. Plus Unchg'd Pur.-Retail E.O.M.*	—	—	—	—	58521		36590	

*Leave Month Columns Blank

SCHEDULE II

OPEN TO BUY REPORT THRU November 30 MERCHANDISE DIVISION Home Furnishings ENDING October 31, 1953

DEPT NO	YEAR TO DATE SALES		SALES					MARKDOWNS		STOCK					MARKUP %			DEPT NO.	O T B	OUTSTANDING ORDERS					FUTURE O T B.		
	END OF LAST MONTH		PLANNED SECOND FUTURE MONTH	PLANNED NEXT MONTH	PLANNED THIS MONTH	THIS YEAR MONTH TO DATE	EST SALES BAL OF MONTH	MONTH TO DATE $	YR TO 1ST OF MONTH %	STOCK FIRST OF MONTH	STOCK ON HAND TODAY (10+14)−(6+8)	PLANNED STOCK	PLANNED STOCK	PURCHASES MONTH TO DATE	MONTH TO DATE	YR TO 1ST OF MONTH	BUDGETED		OPEN TO BUY TO	PAST DUE TO DATE	CURRENT THIS MONTH	NEXT MONTH	SECOND FUTURE MONTH	THIRD FUTURE MONTH	NEXT MONTH	SECOND FUTURE MONTH	FUTURE ORDERS
	THIS YEAR Sept. 30	LAST YEAR Sept. 30	Dec.	Nov.	Oct.	Oct. 31		Oct. 31	Oct. 1	Oct. 1	Oct. 31	Oct.	Nov.	Oct. 31	Oct. 31	Oct. 1	Yr.		Nov. 30	Oct. 31	Nov.	Dec.	Jan.	Feb.	Dec.	Jan.	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17		18	19	20	21	22	23	24	25	26
255	45 5	42 5	17 0	9 0	6 0	7 2		0 9	5.48	54 7	62 4	51 0	51 0	15 8	47.7	43.9	46.2	255	(16 3)	0 5	13 4	9 3			(8 6)	(5 6)	
	TOTAL																										

ALL FIGURES AT RETAIL TO NEAREST HUNDRED

SCHEDULE III

*DO NOT EXCEED THE OPEN-TO-RECEIVE LIMIT IN ANY GIVEN MONTH

	MONTH November		MONTH December		MONTH January	
	DATE	DATE REVISED	DATE	DATE REVISED	DATE	DATE REVISED
ON HAND	62,400		67,300		59,600	
PAST DUE	500		—		—	
ON ORDER	13,400		9,300		—	
TOTAL OBLIGATION	76,300		76,600		59,600	
LESS SALES	9,000		17,000		6,000	
EOM ESTIMATED STOCK	67,300		59,600		53,600	
EOM PLANNED STOCK	51,000		51,000		48,000	
* OPEN TO RECEIVE	(16,300)		(8,600)		(5,600)	

MEMORANDUM	DATE	ORDER NUMBERS	AMOUNT PURCHASED	BALANCE O.T RECEIVE	MEMORANDUM	DATE	ORDER NUMBERS	AMOUNT PURCHASED	BALANCE O.T RECEIVE	MEMORANDUM	DATE	ORDER NUMBERS	AMOUNT PURCHASED	BALANCE O.T RECEIVE
	11/2	43592	500	(16800)										

DEPT. 255 OPEN TO RECEIVE LIMITS DATE Oct. 31, 1953

SCHEDULE IV

THE JONES COMPANY

RETAIL MERCHANDISE BUDGET FORECAST

SEASON OBJECTIVES } M.U. % 46.2 M.D. % 5.5 Turnover .9

DEPT ANNUAL VOL. TO STORE } Goal 1.75 L.Y. 1.6

STORE ______

DEPT. NO. 255 NAME Dinnerware

YEAR 1954

Show figures to nearest hundreds

	FEB.	MARCH	APRIL	MAY	JUNE	JULY	TOTAL 6 MOS	AUG	SEPT.	OCT	NOV	DEC	JAN	TOTAL 6 MOS.	TOTAL YEAR	FEB
							RETAIL SALES									
Actual																
Revise																
Plan 53	6 5	5 0	5 0	5 5	6 5	6 0	34 5	6 0	4 5	5 5	8 5	16 0	5 5	46 0	80 5	6 5
L.Y.	6 1	4 7	4 8	5 1	6 4	5 4	32 5	6 2	3 9	4 9	6 7	12 5	5 2	39 4	71 9	
19 51	5 0	5 1	5 9	4 8	5 6	5 6	32 0	5 5	3 9	5 4	8 1	14 7	4 5	42 1	74 1	6 1
							STOCK FIRST OF MONTH									
Actual							SPRING SEASON TURNOVER							FALL SEASON TURNOVER	YEAR TURNOVER	
Revise																
Plan 53	39 0	34 5	34 5	36 8	39 0	36 0	.944	45 0	45 0	45 0	45 0	45 0	45 0	1 02	1 11	48 0
L Y	34 0	36 6	37 7	41 5	41 4	39 6	.837	46 9	33 0	32 3	34 2	30 9	35 6	1 97	1 94	39 4
19 51	27 5	27 7	30 3	31 0	33 6	30 9	1.058	30 3	30 9	30 1	39 2	35 0	33 1	1 27	2 33	34 0
							STOCK SALES RATIO									
Actual																
Revise																
Plan 53	6 0	6 9	6 9	6 7	6 0	6 0		6 0	10 0	8 2	5 3	2 8	8 2			7 4
							PURCHASES									
Actual																
Revise																
Plan 53	2 0	5 0	7 3	7 7	3 5	6 0	31 5	6 0	4 5	5 5	8 5	16 0	8 5	49 0		
L Y	9 2	6 2	9 1	5 2	5 1	5 2	40 0	7 5	3 3	6 8	3 4	17 4	9 5	32 9		
19 51	5 9	8 5	7 7	7 7	3 6	5 9	39 3	5 5	3 5	15 1	4 9	13 2	6 3	49 0		
							ACTUAL MARKUP									
Actual																
L Y	41 4	43 9	44 3	47 9	43 3	47 7		42 4	42 8	48 2	37 9	45 5	44 3		45 6	44 5
							MARKDOWNS									
Actual																
Estimated	0 4	0 3	0 2	0 3	0 4	0 3	1 9	0 2	0 2	0 3	0 4	0 6	0 5	2 2	3 9	
L Y.	0 4	0 4	0 4	0 3	0 4	0 4	2 3	0 1	0 1	0 0	0 0	0 1	0 4	0 7	3 0	

CHAPTER SEVEN

Selection of Product

Even a casual scrutiny of the retail advertisements in a Sunday newspaper will show that a large part of the items offered for sale are items new to our economy in the last fifteen or twenty years. Ours is a dynamic economy. Our standard of living rests as much on our ability continuously to add to the variety of merchandise as on any other one factor. As rapidly as we mechanize the manufacturing processes for some sector of industry, we develop new industries, which become component parts of our standard of living and which afford new job opportunities.

Acceptance of a New Product

It is not easy to determine whether or not a new product will succeed in the market. At the time radio was no more than a headphone, a battery, a quartz crystal, and a hundred feet of aerial, few analysts would have forecast that radio would become one of our great industries. The unreasoning faith of a few zealots and fifteen years of steady product improvement were necessary to establish the radio.

In some situations individual vision is more significant than all our research and analysis. These are, however, exceptions. For the most part, a manufacturer's selection of new products to manufacture and to market can be based on objective calculation.

Supplantive Products

The first criterion in appraising the acceptability of a new product is the question of its utility. Does it satisfy a want? If the product is a supplantive one—that is, a product which will compete with others already on the market and ministering to the same need—the basic need is already a realized need. The question then becomes one of comparative merit. How does one find out whether or not a new supplantive product is better? In industrial fields, where rational buying motives prevail, marketing research and experimental use are necessary. It is always easy to assume that one's own brain child has surpassing merit. Inquiries are necessary to find out whether existing products have any shortcomings, to find out whether the characteristics of the new product offer advantages beyond those currently available, and to find out whether the new product can be used with existing equipment. Often, the answers to these questions are not based on opinion, but must be determined by trial use.

In the consumer market, this comparative analysis may not be so easy to make. Surveys among consumers may indicate that the new product has a superficial appeal, but the analyst must still use judgment. In one case, a manufacturer of processing machinery introduced a compressed coffee. There was no change in the grind or in the blend of coffee; it was merely compressed into small cubes which could be stored in a cupboard more handily. A consumer survey indicated that coffee presented in this form was attractive to consumers, and that they thought they would prefer to buy coffee so compressed and packaged, even at the extra cost of a few cents a pound. Yet further inquiry suggested that there were several disutilities in the new form. First, because the coffee had been compressed under consider-

able pressure, as soon as its wrapping was broken it tended to fly out, and unless it were opened within the coffee pot, it might fly all over a kitchen sink or stove. Moreover, the package was not sufficiently variable. It contained enough for about four cups of coffee—so that those who wanted to make less would have to use part of a cube and would have several tablespoonfuls of loose and unpackaged coffee to store or to throw away. In spite of the favorable reaction to a first consumer survey, it never became practicable to market coffee in this form.

Again, the survey method and the trial in use are important. But judgment or good sense are equally requisite.

Addative Products

In the case of an addative product—one that does not compete with a product already on the market, but seeks to satisfy a hitherto unrealized or latent want—the fundamental question is whether the want actually exists, and if it does, whether it is widespread enough to justify manufacturing and marketing expenditures. Do we want to manufacture and market a special lubricant to keep the drawers of dressers and desks from sticking? Such a product can be made, and it is certainly true that some drawers stick. Yet it is much to be doubted that the want is widespread enough and important enough to justify the offering of a specialized product.

Changes in Demand

Sometimes, the steady improvement of our standard of living will ultimately justify the marketing of a product which previously seemed out of the question. Individual room coolers for dwellings will illustrate the point. When such appliances were first developed, the idea that they would ever be purchased widely by consumers seemed remote. But the gradual acceptance of air conditioning in commercial and industrial establishments and the gradual increase in our standard of living have brought them to the point of wide acceptance by consumers.

Significant Considerations

Entirely aside from questions of utility and acceptance, there are several other important considerations which will determine the desirability of the putative new product. Does the manufacturer have any particular advantage in acquiring the materials for the new product? Is it to be made, for example, from ingredients that exist as a by-product of the manufacturing he already does? If so, he starts with a great advantage. Does he have any manufacturing advantages? Can he use his present manufacturing facilities, or does he have to acquire entirely new production facilities? Is there any marketing advantage he can start with? Can the product be marketed through his present sales organization, or must he organize an entirely new marketing department? Can he sell through the channels of distribution he is now using, or must he develop a new set of distributive relationships? Will the product be bought by his present customers, or does he have to develop entirely new markets?

There are rarely concise and conclusive answers to these questions. But they represent the considerations that a manufacturer should analyze before he accepts the responsibilities and expenses of a new product.

32 BLUE RIBBON MACHINE COMPANY

Planning the Manufacture of a New Product

The Blue Ribbon Machine Company has been in the machine manufacturing business for a number of years and has a high degree of engineering talent available for the development of new machines. Like many other companies, it desires to add new lines to its products to achieve greater stability in its earnings.

A new butter chip dispensing machine has been offered to the Blue Ribbon Company. The inventor desires to have in exchange for his invention a fair royalty based on the number of his machines produced and marketed by the company.

A machine of this type is useful in public eating places, where butter pats are served with meals. The practice of cutting the butter into pats and then storing them in pans of ice water until needed is considered objectionable because ice water sometimes causes the butter to become discolored. Then, too, fingerprints are sometimes visible on the pats, placed there accidentally by the person who cut and handled the butter. A certain amount of waste is unavoidable in handling butter this way because two pats often stick together.

The new machine eliminates these disadvantages. Butter is dispensed a chip at a time, and there is no chance of two chips sticking together. By pushing a plate against a switch a chip of butter is cut off and deposited on the plate untouched by human hands. The butter stored in the dispenser is kept at a constant temperature at all times by means of an electrical refrigerator unit which is built into the butter dispenser.

By changing the size opening through which butter is extruded, the proprietor may adjust the size and shape of the butter pats as he prefers. The inventor believes this to be a strong selling point because where ¼ pound sections of butter are cut into pats, they are limited to a square of predetermined size, and it is difficult to vary the thickness of the butter pat without its being noticeable.

Since the sanitary features of this type of dispensing unit are very evident, it is possible that public opinion may compel all public eating places to use similar butter dispensers, and eventually legislation may be enacted making the installation of such dispensers mandatory. Another advantage claimed for the machine is that it saves considerable labor because waiters and kitchen help do not have to spend any time in cutting butter into pats.

The Blue Ribbon Machine Company's principal business is the manufacture of heavy machinery used by industry. It does a small business, however, in manufacturing serving counters and display racks used in large cafeterias. The butter dispenser would fit nicely into the picture because the same kitchen equipment dealers handling the counter line could also handle a butter chip dispenser. Four salesmen handle the counter and display rack line and call on dealers at regular intervals. This line has been very successful, and the company thinks that its product lines should be expanded to secure greater diversification in fields more remotely separated from its main line of heavy industrial machinery.

A market study shows that there are several manually operated devices on the market, such as multiple wire cutters selling for a few dollars, which will cut butter into pats. Such cut butter pats have to be stored, usually in pans of ice water until ready for use.

There is also a butter dispenser, selling for approximately $40, which produces chips automatically when a wheel is rotated manually. It does not dispense a chip at a time for each serving. The closest competitive apparatus are semi-automatic butter dispensing machines which sell from $100 to $300. They are not as simple to operate as the new machine, which seems superior to all others. It was also learned that butter can be purchased from creameries already cut into pats at an extra cost of 3¢ a pound.

Another feature of the new machine is a device which counts the number of pats dispensed. Since usually only one pat is dispensed with each meal, this would provide a convenient check on the number of meals served each day. This feature would have considerable appeal in cafeterias, schools, hospitals and the like, where it was necessary to have a record of the number of meals served. In hotels, where large banquets often are paid for by one person, this could be of great help to the management in checking the number of meals actually served.

For the purposes of this market survey it was felt that only the largest of the public eating places throughout the country, namely, those serving at least 15,000 persons a month, would have any use for an automatic butter chip dispenser. The number of institutions is listed in Table I.

TABLE I

NUMBER OF INSTITUTIONS SERVING 15,000 MEALS PER MONTH

Hotels and public restaurants	45,000
Factory cafeterias	3,000
Hospitals	2,400
Schools	2,000
Total	52,400

The shop cost for 5,000 machines and the amortization of tool costs covering this number is estimated at $450. The shop cost for 1,500 machines and the amortization of tools over this number is estimated to be $500. This would necessitate a markup of at least twice this figure, resulting in a selling price of from $900 to $1,000.

The selling price is much below that of other machines which Blue Ribbon manufactures. It would be extremely difficult to lower the figure beyond this point without extensive redesign of the machine. By extensive redesign of the machine it might be possible to bring the shop cost down to $400, which would necessitate a sales price of $800.

Normal butter servings average 80 pats to a pound when made ¼ inch thick. An establishment serving 500 people a day would, therefore, serve a little over six pounds of butter a day.

A model of the machine has been built, and the tests run on it have been very satisfactory. The appearance of the machine is adequate for the use to which it will be put.

QUESTIONS

1. Should the Blue Ribbon Company manufacture the machine?
2. If the company decides to manufacture the machine, in what quantities should it be produced?
3. How should the machine be sold? Would there be any advantage in leasing or renting the machine instead of selling it?
4. Is it a sound policy for a firm which specializes in heavy industrial equipment to diversify its production by manufacturing smaller equipment, such as the butter dispenser?

33 MARS POLISH COMPANY

Expanding the Market

Mars Polish Company was incorporated under the laws of the State of Pennsylvania in January, 1951, to develop, process, produce, and distribute boot polish of all kinds. The organizers of the company were John Franklin and James Nelson. John Franklin was a chemist and had been associated with a large manufacturer of shoe polish for five years. James Nelson was a salesman and had sold for several food manufacturers since his discharge from the Army in 1946.

While Mr. Franklin was with the large manufacturer, he developed, on his own time, a new type of shoe polish that was superior to

any of the polishes on the market. Because of a special combination of waxes, oils, dyes, and leather preservatives, the shine produced with his polish surpassed that of any of the other polishes in the tests which were made. Another advantage of the polish was that it could be manufactured in any of the standard colors, and when a person applied the polish to his shoes, it would not discolor his hands.

The chief disadvantage of the polish was that one had to dry rub briskly for a longer period of time in order to get satisfactory results. Because of this factor, both Mr. Franklin and Mr. Nelson felt that it would be best to concentrate on shoe shine parlors and stands and shoe repair stores in introducing the polish to the public. As Mr. Nelson stated, "I am sure that once the people see the results that are secured with our polish they will begin to put pressure on the various retail outlets to handle the product."

The polish was packaged in 3-ounce containers and sold to the above outlets for $1.58 per dozen. Sales were not as great as the owners had anticipated, but the company was still able to make a small profit in 1952 and 1953.

Early in 1954, Mr. Nelson questioned a number of retailers and finders (jobbers) to determine what the opportunities might be to distribute in the retail field. He found that the majority of the other shoe polishes were sold in 1½-ounce to 2-ounce containers. It was the practice of the trade to fair trade the polishes, and the same wholesale price was offered to all outlets, regardless of whether the customer was a finder or retailer. As an example, polish which retailed at 25¢ a can was sold to both retail stores and finders for $1.63 per dozen. As a result of the policy of selling to all outlets at the same price, the finders were able to sell only to those shoe stores and shoe repair shops which purchased in small quantities. The finders were dissatisfied with this policy and carried polish primarily as a convenience for some of their accounts.

Mr. Nelson believed that the company, if it decided to enter the retail field, could offer a 2½-ounce can of its polish at the going price of $1.63 per dozen. He believed the larger quantity, the superiority of the polish, and the other advantages would more than offset the inability of the company to do any national advertising. Although both he and Mr. Franklin were aware of the difficulty in applying the polish, they felt that this would not be too objectionable to the consumers because the "shine" would last longer.

QUESTIONS

1. How important is the fact that the Mars Polish Company planned to offer a greater quantity of shoe polish for the same price?
2. Do you believe that the Mars Polish Company could secure consumer acceptance without the use of national advertising for its product?
3. What are the main qualities which a consumer wants in a shoe polish? Of these, which would you say are essential if the polish is to receive general consumer acceptance?
4. Should the Mars Polish Company introduce its shoe polish in the retail market, or should it limit distribution to the shoe shine parlors and shoe repair stores?

34 BROWN RADIO CORPORATION

Correlation of Production Developments to Marketing

The Brown Radio Corporation, with factory facilities in several eastern cities, produces a full line of radio tubes, including tubes for AM and FM receiving sets, television sets, and industrial applications. The company enjoys a very favorable position in the industry, and its products are known for their high quality and dependability. This reputation has been built up over the past through intensive advertising and good product performance.

Shortly after World War II, the Brown Radio Corporation engineers designed a new FM receiving tube. The estimated sales demand for this new receiving tube was placed at approximately 20,000 tubes per year. Sample tubes were made in order that the Manufacturing Standards Department could estimate a standard manufacturing price based on the expected sales volume. At the same time it was found that it would cost $15,000 to tool up for production on the tube. After determining a sales price, which included a margin comparable to that of similar tubes in the line, the Brown Radio Corporation distributed sample tubes to its sales engineers, who were to get in touch with the set manufacturers for future orders. However, the sales engineers for the Brown Radio Corporation found they could not sell the tube at the price quoted by the company.

After a thorough analysis of the price on the new FM tube, the

company decided that the high tooling cost would not warrant a further reduction in sales price and still provide a reasonable margin of profit. Furthermore, another very important fact influencing this decision was the uncertainty of the trend in design for the tube. Therefore, it was decided not to produce the new FM tube but, instead, to concentrate on the other more popular-priced products.

At a later date, the Tube Department of the Newton Electric Company, a competitor of the Brown Radio Corporation, designed an FM receiving tube very similar to the Brown tube in construction and characteristics. The Newton Electric Company had stressed FM equipment and had many prominent customers in the FM field. This tube was offered to these customers at a more reasonable price than that quoted by the Brown Radio Corporation.

After the Newton Electric Company had been selling the FM tube for a comparatively short time, the sales engineers of the Brown Radio Corporation found out that there was a relatively large demand for the new tube from its regular customers. This situation was brought to the attention of the sales manager of the Brown Radio Corporation for further consideration.

The sales manager of the Brown Radio Corporation asked the Tube Design Section and the Application Laboratory for a re-study of the new FM receiving tube. As a result of this study, the Brown Radio Corporation Laboratories pointed out that with minor changes in construction the new FM receiving tube would give satisfactory performance in both FM and television sets.

The Brown Radio Corporation was now confronted with the problem of whether to produce the new tube for FM sets at a price competing with the Newton Electric Company or to wait for approximately nine months until a complete study could be made to determine if it would be economical to incorporate the television features in the new FM tube. The Brown Radio Corporation fully realized the tremendous sales potential involved if the tube could be used as a replacement in both television and FM receiving sets.

QUESTIONS

1. Should the Brown Radio take advantage of the current demand and produce the new tube for FM sets?
2. What would determine whether or not it would be advisable to hold up production until the tests were completed?

3. If the tests showed that it was not economical to incorporate the television features in the FM tube, what action should the company take?
4. Why do you believe Newton Electric Company was able to offer its tube at a lower price?

35 ACE RADIO AND TELEVISION COMPANY

Importance of Distribution in a Diversification Program

The Engineering and Research Department of the Ace Radio and Television Company has developed a low-priced magnetic tape recorder which can be attached to any standard radio set or used separately as a recording or dictating machine.

The company is engaged in the engineering, manufacturing, and sale of television receivers and radio receivers. It produces eleven models of television receivers sold under the trade name "Ace," ranging in list price from $159.95 to $949.95 depending on the size of the picture tube and other features. The lowest priced unit is a table model equipped with a 17″ picture tube, and the most expensive model is a radio-phonograph-television combination equipped with a 21″ picture tube. Other table and console models are produced with either 17″, 21″, or 24″ picture tubes.

In its radio division the company produces eight models, one of which is a table model retailing at $23.50. The other models are more expensive and range in price up to $195.95.

The company's manufacturing operations consist primarily of the assembly of parts produced by other companies according to the specifications established by the Engineering and Research Department. These parts include chassis, speakers, tubes, cabinets, condensers, transformers, coils, switches, and tuners.

Ace's products are distributed from coast to coast either to wholesale distributors or directly to dealers. In 1953, approximately 85 per cent of the company's sales were made to wholesale distributors located in principal television centers outside the New York metropolitan area, and the balance of approximately 15 per cent was made directly to dealers including those in the New York metropolitan area.

Until the Spring of 1948, when its method of distribution was changed to direct sales to dealers, all the company's products were sold to wholesale distributors. The subsequent trend, however, has been a return to wholesale distributors, except in the New York metropolitan area, where sales are made direct to dealers. For the most part, such wholesale distributors handle only noncompetitive products, whereas dealers handle competitive products.

The Ace Company's sales volume had changed so that in 1953, 95 per cent of its total sales were television sets and 5 per cent radios. In 1948, sales of television sets accounted for only 19 per cent of the total sales volume. In 1953, Ace's sales accounted for less than 2 per cent of the television sales in the United States. It was considered one of the smaller companies in this rapidly expanding but highly competitive industry.

The company's manufacturing plant is a four-story modern building of steel and concrete construction, comprising approximately 250,000 square feet of floor space. In this building, 20,000 square feet of floor space at the rear of the ground floor are leased to the Sangamon Motors Company, which lease expires in sixty days.

The machinery, equipment, and plant facilities are of modern design, in good condition, and have an approximate average age of two years. In the event the company decides to manufacture a tape recorder, there appears to be no important production problems which will have to be solved. By not renewing the lease with the Sangamon Company, adequate floor space will be available. Also, the company has developed such fine relationships with its suppliers of parts that it will not experience any difficulty in getting them to manufacture the parts for the recorder.

In checking the market potential for the tape recorder, Mr. Collins, Director of Research, found that there were forty-one companies manufacturing sets and over 14,000 retailers selling them. Prices on the sets ranged from $95 to $325 for home recorders. Professional sets varied from $400 to $25,000.

As a result of the tests he had conducted, Mr. Collins believed that the fidelity of reproduction of the Ace Tape Recorder compared favorably with the lower priced recorder of RCA Victor, Ampex, Rangertone, Magnacord, and Sound-Scriber.

In his report, Mr. Collins indicated that the uses of a low-price tape recorder are many. Its simplicity of operation, the high fidelity

of lifelike reproduction, the ease and speed with which tape can be erased, and the accuracy with which the tape can be cut or spliced are important factors in increasing the variety of uses in offices and homes.

The main problems which face the company if the decision is made to produce the tape recorder are centered around the method of distribution and the market in which the machines may be sold.

The wholesale distributors of the company are specialists in the television and radio industry and are not experienced in the distribution of recording equipment. Most of the retail stores to which these wholesalers sell do not handle recorders of any kind. Of those which do, none of them sells recorders to business firms in any quantity.

The potential market which the Ace Company envisions for its tape recorder is primarily in the home and office markets. Although the price of the recorder has not been established, it appears from early cost studies that it will be necessary to get a retail price of about $175.

QUESTIONS

1. Should the Ace Company further diversify its product lines by manufacturing the tape recorder?
2. What is the potential market for a low-priced tape recorder?
3. Would it be possible for the Ace Company to use the same channels of distribution for the tape recorder as for the television and radio sets?
4. If the same channels could not be used, what channels would you recommend?
5. What principle for a program of diversification can be developed in relationship to the policy of distribution?

36 BURTON AND COMPANY

Testing the Market for a Dental Product

In 1946, American Laboratories, a manufacturer of cosmetics, brought out a dental cosmetic which when applied to the teeth gave them a pearl-like luster. It would cover dingy, discolored, nicotine-stained teeth, even gold fillings. The product had been clinically

tested in a prominent dental school and found harmless to teeth and gums. Since the product was marketed purely as a cosmetic, it could not be reviewed by the American Dental Association.

The product was put on the market, and sales were tested in about eight department stores located in big cities, coast to coast. Original sales were good but repeats seemed very poor. The product was put aside for the following reasons:

1. Lack of promotion of the product.
2. In 1946, the product was priced to retail at one dollar. Since then, production costs have increased. American Laboratories also priced the product at a level which fit the general price pattern of the rest of its cosmetic line.
3. Repeat business on the product was not what the company expected. Experience with selling the product showed that a follow-up on each sale was required to develop a profitable percentage of repeat business. This was necessary because practice was required in learning efficient application. At a price of one dollar, there simply was not enough margin available to perform this service.
4. The dental cosmetic was only a small specialty item for American Laboratories. Their primary interest was a line of cosmetics with an annual volume in the millions. When this product didn't go as expected originally, it was neglected.

In 1953, J. Burton, an advertising man, discovered the sleeping product while looking for new accounts for his firm. American Laboratories told him that they would not invest another dime in promoting the product and that the product was for sale.

The product fired Burton's imagination. It was the only product of its kind on the market. Its nearest competition was a dental recap job on discolored teeth and cost hundreds of dollars. Therefore, Burton formed a company which became the selling agent for the product. He was given control over promotion and pricing, and for his investment of time and money he was given an option to buy the property outright at a specified figure within a period of six months. Burton felt this would be ample time in which to determine the value of the property.

Features of the Product

1. The product is applied with a small brush which comes with the container. A thin coating gets the best results. It is also necessary that the teeth be dry when applying the cosmetic.
2. A bottle will last approximately two months if the applications are made daily.
3. The cosmetic can be applied in about the same time as lipstick.

Burton and Company set up the following marketing policy:

1. The retail price was raised to $2.50. This change was necessary to compensate for increased production costs, to improve the product, to restyle the package, and to allow an adequate promotional budget.
2. Burton set out to learn why so many original purchasers did not become repeaters. In most cases the answer was simple: "They did not follow directions exactly." The company, therefore, developed a Beauty Consultant Service to give a personalized follow-up on every purchase and to pin-point the directions.
3. Distribution was through leading department stores on an exclusive area basis. Direct mail distribution was contemplated for the near future. Advertisements were planned for the pulp magazines soliciting direct mail business. All orders from people in an exclusive area would be forwarded to the store.
4. Price terms with Burton outlets were $2.50 less 40 per cent less 2 per cent ten days E.O.M.
5. Burton also allowed a "20 per-cent-off-invoice" appropriation for local advertising purposes.
6. Burton used P.M.'s to obtain the names and addresses of each customer. Each salesclerk was to be paid $2.00 for every twelve sales of the product if he recorded the required information on the P.M. slip. The company also believed that this arrangement would result in more active cooperation from salesclerks.

As a result of the Burton Company's merchandising plans, the auditor set up a planned profit per unit as given in Schedule I.

Although Burton's unit profit would be low, he believed that when he could get a larger volume of business his product and shipping costs could be reduced to $0.40 per unit.

In the first five months the company was fairly successful in placing its product in a number of the leading department stores in the New England and Middle Atlantic States. However, Burton was just about able to meet costs.

SCHEDULE I

PLANNED PROFIT PER UNIT

Retail Price per Unit		$2.50
Less Allowances and Expenses:		
40% allowance to outlets	$1.00	
20% allowance for advertising	.30	
P.M. discount	.17	
Beauty consultant service	.10	
Cost of product and shipping	.50	
Sales expense	.20	
Administration expense	.15	2.42
Planned Profit per Unit		$0.08

He was not sure whether this condition was due to the difficulty of reaching his selective potential market or whether it was just the natural high costs of missionary promotion in an attempt to create volume business.

If the failure to earn a profit was caused by the high cost of selective distribution, Burton would then refuse his option of buying the product. However, if it was due only to the high missionary costs, he could then hope to realize future profits when his product had wider acceptance.

QUESTIONS

1. Is the market for such a dental cosmetic highly selective or rather widespread?
2. Do you believe Burton followed a satisfactory program of merchandising the product?
3. Why do you believe Burton failed to realize a profit during the first three months? Is a six-month period adequate to test a product of this kind?
4. What would be your recommendation to the Burton Company?

37 CALIFORNIA SPECIALTY CORPORATION

Evaluating Production of a Competitive Product

In 1953, a large frozen fruit and vegetable packer on the Pacific Coast approached the California Specialty Corporation with a plan whereby the packer would produce exclusively for the California Specialty Corporation and discontinue sales to all other outlets.

Since 1929, the research department at the California Corporation had been making extensive studies and analyses in the processing of frozen fruits and vegetables. The department had also established the standards for quality which the company would have to maintain if it decided to go into the packing and merchandising of frozen foods. However, the executives of the company had not favored entering the frozen foods market and limited its operation primarily to the canning industry.

The packer suggested that the CASA del REY label be used on the frozen food packages so that the company might take full advantage of the wide acceptance of the brand by consumers. The packer's plant was large enough to turn out sufficient quantities of frozen beans, peas, corn, apricots, and strawberries for about 20 per cent of the market which the company would hope to secure if it entered the frozen food field.

The California Specialty Corporation, incorporated in 1924 through the merger of three canning companies in California, became one of the first canned fruit and vegetable packing companies with a sufficient volume to start advertising on a national scale.

Prior to the formation of California Specialty Corporation, many brands were known and established in various localities, but none was known nationally. In pooling their resources, the companies had production large enough to undertake national distribution and resources sufficient to make the CASA del REY brand known through advertising.

The relative progress made within the canning industry by the California Specialty Corporation was such that by 1953, the company had become one of the largest packers of peaches, pears, apricots, and other California fruits, and the second largest packer of pineapples.

In addition to its packing operations, California Specialty Corporation was a very important grower of peaches in California, and pineapples in Hawaii and the Philippines.

The company was also one of the leading packers of all major vegetable products. Among the vegetables which it packed were: peas, corn, tomatoes, spinach, asparagus, pumpkins, green beans, beets, lima beans, carrots, and potatoes.

Table I has been prepared from data released by the United States Department of Agriculture and shows how the average consumption of canned fruits and vegetables increased from 29.8 pounds a year in 1919 to 55.8 pounds in 1949. In addition the average consumption of canned fruit juices increased from 0.3 pounds to 15.5 pounds during the same period.

It is also of interest to note that, despite the general interest which has developed for frozen food products, the 1949 consumption of frozen fruits and vegetables accounted for only 1½ per cent of the total consumption. This is the equivalent of about 9 per cent of the volume of the canned goods.

TABLE I

CIVILIAN CONSUMPTION OF FRUITS AND VEGETABLES

	Pounds Consumed Per Capita						
	1949	1948	1947	1939	1935	1929	1919
Canned:							
Fruits	17.5	18.0	18.2	15.9	13.3	12.2	9.7
Fruit juices	15.5	17.9	15.5	5.9	2.0	0.3	0.3
Vegetables	38.3	36.8	40.0	31.6	26.0	25.7	21.1
Total	71.3	72.7	73.7	53.4	41.3	38.2	31.1
Fresh:							
Fruits	124.9	130.6	143.5	150.9	135.8	143.5	123.8
Vegetables	251.0	261.0	252.0	243.0	231.0	221.0	193.0
Total	375.9	391.6	395.5	393.9	366.8	364.5	316.8
Frozen:							
Fruits	3.5	3.0	3.2	1.1	0.5	0.6	..
Vegetables	3.0	3.0	2.6	0.5		..	..
Total	6.5	6.0	5.8	1.6	0.5	0.6	..
Total Fruits and Vegetables	453.7	470.3	475.0	448.9	408.6	403.3	347.9

Source: U.S. Department of Agriculture.

Table II clearly illustrates the dynamic characteristics of the canning industry. The rapid growth of the national population from 106,000,000 in 1920 to 151,000,000 in 1950 was accompanied by an even greater increase in the volume of sales of canned foods.

TABLE II

TOTALS OF PRINCIPAL PACKS OF FRUITS, VEGETABLES, AND JUICES

	Millions of Cases						
	1949	1948	1947	1946	1939	1929	1919
Fruits	68.9	63.9	65.5	81.0	51.9	40.8	25.4
Vegetables	253.4	249.4	257.8	308.1	186.0	146.4	74.9
Juices	86.7	94.7	95.1	106.9	47.6	(*)	(*)
Total	409.0	408.0	418.4	496.0	285.5	187.2	100.3

* Negligible totals.

Comparative data on the fruit packs are presented in Table III.

TABLE III

U.S. PACK—PRINCIPAL CANNED FRUITS

	Millions of Cases						
	1949	1948	1947	1946	1935-1939 Aver.	1929	1919
Apricots	2.4	4.8	3.3	10.7	3.4	4.3	4.4
*Fruit cocktail	7.9	11.0	10.3	9.0	3.9	1.7	(†)
Peaches (All)	19.1	17.4	19.1	20.3	11.7	8.6	7.9
Pears	5.9	4.0	5.8	5.5	4.9	5.0	2.0
Pineapple (Hawaiian only)	10.4	10.4	8.8	8.0	9.3	9.2	5.1
Other fruits	23.2	16.3	18.2	27.5	13.8	12.0	6.0
Total Fruits	68.9	63.9	65.5	81.0	47.0	40.8	25.4

* Includes fruit salad, mixed fruits, and fruit cocktail.
† Included in other fruits.

Table IV shows that peas, corn, and beans enjoyed the greatest growth. The relatively poorer showing of canned peas in 1948 and 1949 was partially due to overproduction during 1946. Although the uses of tomato products grew substantially since 1929, the volume of solid packed canned tomatoes was held back due to the competition from popular tomato juice.

TABLE IV

U.S. PACK—PRINCIPAL CANNED VEGETABLES

Millions of Cases

	1949	1948	1947	1946	1935-1939 Aver.	1929	1919
Asparagus	4.4	3.6	3.8	4.8	3.1	2.8	1.0
Beans, stringless ..	20.6	15.2	13.1	18.3	8.9	8.5	2.2
Beets	7.4	4.5	3.4	7.3	3.4	2.0	0.6
Corn	29.8	31.5	26.1	31.0	20.4	17.5	13.6
Peas	23.5	23.4	33.1	41.0	22.5	18.5	8.7
Spinach	6.7	5.0	3.9	8.6	4.8	4.8	0.8
Tomatoes ...	21.5	24.4	27.7	23.9	26.7	24.1	18.5
Tomato products	22.5*	26.7*	37.4*	45.1	15.9	12.4	(†)
Other vegetables	117.0*	115.1*	109.3*	128.1	76.6	55.8	29.5
Total Vegetables	253.4	249.4	257.8	308.1	182.3	146.4	74.9

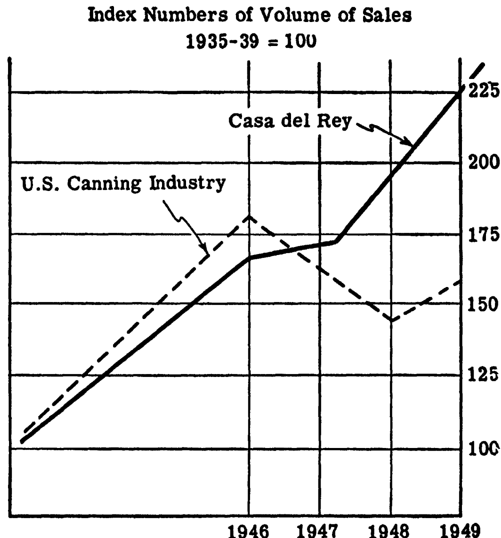
* Partially estimated.
† Included in other vegetables.

The relative progress made within the packing industry by the California Specialty Corporation is indicated in Chart I.

CHART I

GROWTH OF THE U.S. CANNING INDUSTRY AND CALIFORNIA SPECIALTY CORPORATION

Index Numbers of Volume of Sales
1935-39 = 100



Source: U.S. Department of Commerce.

QUESTIONS

1. Should the California Specialty Corporation enter the frozen food market at this time?
2. If the company decided to enter the market, should it accept the offer from the independent packer since he is only able to produce about 20 per cent of the planned quantity needed?
3. Should the company use the name CASA del REY on its frozen foods as well as on its canned goods? What would be the main advantages and disadvantages of such a policy?
4. What do you believe will be the future growth of the canning and frozen foods industries?
5. How would you classify the frozen foods and canning industries? How competitive are they? How important would this factor be to the executives of the California Specialty Corporation?

38 THE EASTVILLE SERVICE CORPORATION

Deciding on Concentration of Sales Effort

The Eastville Service Corporation was faced with the problem of which make of oil burner to sell. The company had been selling the Extrol Burner exclusively for fifteen years, but in 1953 it had accepted exclusive distributor rights for the Liquid Heat Burner as well.

Because of the adjustment it is possible to achieve with the Liquid Heat Burner, it is considered superior to the Extrol Burner. The very accurate air adjustment valve permits an extremely fine air-oil mixture. The burner, because of this accurate control, also breaks the oil into more minute particles. Therefore, it produces a better, cleaner flame, and a steadier, more dependable heat. Because more of the oil is consumed, the burner stays cleaner.

The consumer benefits because of better performance, less servicing cost, and a decrease in the consumption of fuel oil. The high price of fuel oil makes the latter an important sales point.

The company benefits because service calls due to faulty performance are greatly reduced. The company also benefits from the increased satisfaction that the consumer gets from the burner. This point is particularly important because a large part of the company's business comes through the satisfaction of the old customers.

All these advantages notwithstanding, the Eastville Corporation found difficulty in selling the new burner. Consumers were wary of the little known burner, especially so when it was more expensive than the Extrol, with which they were familiar. The company was not able to carry on an extensive advertising program. The executives had to decide whether to drop the Liquid Heat Burner and concentrate on the Extrol Burner or attempt to spread their sales efforts on both burners.

History of the Company

The Eastville Service Corporation has been operating in Westchester County for the past thirty years. It sells fuel oil and oil burners to both private and industrial users. The bulk of its sales is made to private users.

Until about 1935, the company sold a complete line of builders' supplies, maintained several lumber yards throughout the county, and had an extensive coal business and a large wholesale ice business. Bad business conditions in 1936, coupled with excessive competition, forced the company to concentrate on its most profitable lines (fuel oil, oil burners, and ice) and to abandon the other lines (building supplies, lumber, and coal).

In that year the company also became affiliated with one of the large petroleum companies and sold its petroleum products exclusively.

Organization of the Company

The oil burner and burner service departments are independent of the company's affiliation, both as to type of products sold and the servicing of these products. The selling methods are entirely under the direction and operation of the Eastville Corporation.

The company has a sales force of three, who are engaged in selling both the oil and the oil burners. Besides these salesmen, the company maintains a complete burner service department, staffed with factory-trained service men who install and service the burners.

World War II Period

During the war years fuel oil and oil burners were in short supply; in fact, for a long period of time, there were no new oil burners to

be had, and the supply of fuel oil was barely enough to meet the needs of the company's old customers. During this time, the chief function of the sales department was to have people renew their fuel oil contracts and sign up for a yearly cleaning of the oil burner unit. The salesmen also promoted the use of the "degree-day" system of fuel oil delivery, whereby the company, by keeping a record of the temperature, knows almost exactly how much oil the consumers use and when to make delivery. These accommodations were important because they helped the company to provide better service and to improve consumer relations.

Advertising Policies

The Eastville Service Corporation did not pursue an aggressive advertising policy. At one time, somewhat earlier in its history, it had done quite a bit of newspaper advertising, but with the depression years it abandoned the advertising and did not resume. The company did, however, do some direct mail advertising, but it was mainly to supplement the work of the salesmen in their routine jobs. These direct mail pieces went to both old and prospective customers.

Operation of Sales Department

The sales department's operations depended on lists of prospective customers. These names were obtained from three sources. The first source was a service which the company bought from an independent organization. This organization provided the names and addresses of people who had either bought or rented homes anywhere in the area served by the Eastville Corporation. In addition, it provided information about the type of dwelling and the selling price. This was a valuable source, because the information was complete and prompt. In as many cases as possible the salesman would call on the prospect and attempt to sell him an oil burner, or if one was already in use, to sell the new tenant fuel oil.

The second, and perhaps the most valuable, source of new business came from old customers who moved within the area. In this case the company could usually sell the customer an oil burner if one was not already in operation and, in addition, usually obtain the fuel oil business of the purchaser.

The third source of business was the recommendation of prospects to the company by the company's old customers.

QUESTIONS

1. Should Eastville Corporation continue to carry the Liquid Heat Burner or concentrate on the Extrol Burner, which has achieved consumer acceptance?
2. If Eastville decides to carry the Liquid Heat Burner how, within the limitations expressed, would the company be able to establish consumer acceptance?
3. With the increasing use of gas heat throughout the country, what do you believe is the future potential of the oil heating industry?

39 WASHINGTON SUPPLY COMPANY

Overcoming a Product Failure in the Market

The Washington Supply Company is a large producer of processing materials for the textile, confectionery, and paper industries. In addition to these bulk commodities the company manufactures and packages, under various labels, a line of grocery items which are sold to chain stores and independent wholesale grocers by their own sales organization. Although the labeled merchandise accounts for only 40 per cent of the company's production, it earns about 54 per cent of the profits.

The largest sales division of the Washington Supply Company employed a district sales manager and three salesmen who, in addition to calling on the wholesale grocery trade, exercised a certain amount of supervision over a force of twenty detail or missionary salesmen. Each salesman was supplied with an automobile by the Washington Supply Company. All compensation was on a straight salary basis. Hotel and traveling expenses were allowed.

Supplementing this sales force was a home economics staff which maintained a recipe testing kitchen and traveled throughout the territory giving luncheons for various organized groups of women. At these luncheons as many as possible of the company's products were used. A demonstration of the use of the products was given following

the meal. About one hundred women usually attended these luncheons.

In 1951, the new products department of the Washington Supply Company devised a formula which enabled the housewife to make fudge, cake icing, or ice cream in the home by the simple addition of water or milk. This package was designed to retail for twenty-five cents.

Company policy required the establishment of distribution outlets before advertising. As a result, in the early summer of 1952, all detail men were moved into one section of the division with instructions to obtain placement for the new product in every possible retail outlet. The merchandise was sold to the retailer "off the car." The quantity sold an individual was of secondary importance in this placement campaign, and the inducements to the retailer were such that 90 per cent distribution was obtained. Point-of-sale advertising material and dealer helps, including recipe folders, box toppers, and banners for window display, were placed by the detail men at the time of the sale.

In addition to these efforts, the detail men were instructed to volunteer their services to the retailer for the purposes of conducting a demonstration in his store during high traffic periods. For these demonstrations the salesman made a quantity of the fudge at home and gave out samples during the demonstration. On the spot instructions were given the housewife, and an effort was made to sell a package of the preparation. These demonstrations averaged one per week per man, and each demonstration sold from twenty-five to forty packages of the fudge mix.

After six weeks of concentrated effort by the sales force, the Washington Supply Company ran a series of quarter-page advertisements in several of the local daily newspapers. Nominal quantities of the mix were purchased by wholesale grocers anticipating repeat business. It was intended that the sales force would begin a second canvass of this trial territory at the time the advertising was released.

About this time the district sales manager, making a spot check, discovered some evidences of discontent on the part of the storekeepers. Upon investigating he found the reason was that 25 per cent of the merchandise in the hands of the retailers was in an unsaleable condition. Realizing that something was definitely wrong, he halted further sales effort of the missionary men.

When samples of the unsaleable packages were given to the pro-

duction and the new products departments for analysis, the fact came to light that the tests made prior to the marketing of the package did not include those to determine whether the box would withstand humidity and moisture. The hygroscopic nature of one ingredient in the formula made the use of a moisture-proof box a prime necessity, but this problem had been overlooked. Examination of the packages returned by the sales manager revealed that the contents had been adversely affected by unusual conditions of summer humidity.

After considerable executive discussion as to the merits of various procedures which might be followed to preserve goodwill, it was decided to have the missionary sales force canvass the territory and buy back every package on the retailers' shelves, paying the full retail price of twenty-five cents. In the course of this canvass the following information was obtained.

(a) Approximately 50 per cent of the retailers still had some part of the original purchases in stock.

(b) A number of the retailers reported that the housewife had failed to obtain satisfactory results.

(c) In general, the lack of response to the item by the housewife had dampened the enthusiasm of the retailer considerably, despite the over-all prestige enjoyed by the Washington Supply Company.

In the late fall of 1952, an effort was again made to market the product with a redesigned package. No extensive consumer advertising was employed. However, because of a lack of consumer demand, resistance from the retailer was strong and the marketing effort met with only moderate success. There were individual instances of consumer acceptance, and during 1953, a few retailers had a satisfactory turnover of the product.

Early in 1953, the Pierson Company introduced a somewhat similar product on the market. More elaborately packaged and designed to retail at a somewhat higher price, the item was accompanied by a national advertising campaign. Despite the fact that this product required the addition of butter or shortening, in addition to the liquid, it met with greater acceptance from the consumer.

QUESTIONS

1. Should the Washington Supply Company attempt to develop a new package and advertise its fudge mix?

2. In your opinion did the sales manager follow a sound policy when he learned about the complaints of the retailers?
3. When a company is manufacturing a number of products and selling them under its own label, what principles should be followed in introducing a new product? Would your answer be different if the product were sold under some other brand name?
4. How would you recommend that Washington Supply Company meet the competition of the Pierson Company if it continues to sell the fudge mix?

40 THE QUINCY COMPANY

The Addition of a New Product

The Quincy Company, a large textile manufacturer, sold three main lines of products. Under the Quincy label, it sold sheets and pillowcases, home furnishings, and blankets. Under a private label through a subsidiary firm, it sold piece goods, shirtings, and the grey goods which it did not use in the manufacture of finished products. These latter items went to retailers, jobbers, converters, and manufacturers.

The Quincy-labeled merchandise was nationally advertised through magazines and was well known. The blankets were distributed through two main channels: first, a direct sales force calling on 3,000 accounts in the United States; second, 60 wholesalers contacting 5,000 accounts throughout the United States. The retailers ranged from neighborhood drygoods establishments to large department stores.

The blanket line consisted of an all cotton-jacquard figured blanket, an "Indian print" cotton blanket, and a rayon-wool blended blanket. The latter was well known, advertised most, and sold well.

Early in 1947, some of the directors felt that a crib blanket should be added to the line. There would be no production problem because if the regular size blanket were cut in half it would be satisfactory. In fact, for several years, the Quincy Company had sold blanket material cut to crib size to a manufacturer who bound them (Dover Company) and marketed them under its own label.

Throughout the war this manufacturer wanted more and more

material but was refused because the Quincy Company did not have enough fabric to satisfy its own customers' demands. The distribution of Dover Company was mainly through infants' wear shops.

At the request of the directors, the Marketing Research Department made a preliminary survey of the "crib blanket market." Some of the findings were as follows:

Births in 1947 and 1948 were expected to reach record highs; 1947 births were estimated at 3,500,000. A higher percentage of these babies were first born, signifying new customers for crib blankets.

Production (in linear yards) of crib blanket fabric (all fibers) increased from 11,795,000 in 1944 to 20,635,000 in 1946. Production (in yards) between 1945 and 1946 increased over 25 per cent without an increase in the number of looms assigned to this production.

Four manufacturers make 83 per cent of all crib blankets. Blend preferences among customers, according to the 1947 study, were as follows:

49%—wool
17%—all cotton
30%—mixtures

A leading mail order merchandiser said that 85 per cent of his sales were "all cotton" blankets, but this percentage varied considerably among the different types of outlets surveyed. Blends, for example, received little consideration in a survey of medium-income department stores. In addition to crib blankets, there are "receiving blankets," a type similar to crib blankets but using a different weave. Information as to what proportion of total production this type constituted was not available.

The management believed that the Quincy name and advertising would carry over from the regular blanket line to the crib blankets and the addition of these blankets would round out the Quincy line. The beginning production costs would be negligible. Since a large number of accounts were small retailers, the buyer would probably find the crib blanket in the same department as regular blankets.

The sales manager listed several disadvantages. First, he felt that crib blankets are bought to a great extent as gifts. In view of competition with several outstanding packages (cellophane topped), they would require costly sales promotion. Second, he felt that in many department stores crib blankets are sold in the infants' shop, which may or may not be within the home furnishing's blanket department.

Consequently, the direct sales force would have to contact another buyer, thereby increasing cost.

A suggested policy was that the Quincy Company sell the crib blanket under Quincy label to wholesalers only. By this method, only 60 per cent of the total accounts would be reached, and national advertising would be wasted if all the accounts did not carry the line.

Distribution of crib blankets by competitors varied considerably. One large manufacturer, with similar products, sold nationally through retailers and mail-order houses under the manufacturer's name. Variety stores also carried both nationally advertised brands and private brands. Other manufacturers sold through select outlets and cooperated considerably in promoting the blankets.

The sales manager felt that, because many women bought crib blankets as gifts, all-wool blankets would increase in popularity. Since the Quincy Company was not prepared to produce an all-wool crib blanket, it would be in a poor competitive position. Competition in all fabrics was expected to increase, and it was believed the company would soon have sufficient material to divert to another line.

QUESTIONS

1. Should the Quincy Company increase its sale of crib-cut blanket material to the Dover Company or manufacture crib blankets under its own label?
2. If the company decided to manufacture and sell the crib blankets under its own label, what channels of distribution should the company use?
3. Should the company use the same brand name if it decides to distribute the blankets?
4. Should the fact that many of the crib blankets are purchased as gifts be significant to Quincy Company in making its decision?

CHAPTER EIGHT

Pricing

Pricing is the element of marketing which is probably least understood by businessmen. The usual formula for arriving at a selling price has a simplicity which is often misleading: Factory door cost + overhead + selling cost + desired profit = selling price. Unquestionably, this formula, or something very close to it, represents the thinking of most businessmen when they consider the selling price of the goods or services they sell. But their own experience suggests that this reasoning represents a serious oversimplification.

When a new product is launched, it is usually expected that selling and production costs will be high. The price established for the product will, at the outset, bear little relationship to the total manufacturing and selling costs, but will be set at a level at which—it is hoped—the product will find a market. Both manufacturers and retailers frequently mark down price on merchandise that has not sold readily. In these two special cases, manufacturers recognize a fact that prevails throughout marketing—that price has little or nothing to do with a cost formula.

Elasticity of Demand

There are several conditions which must be considered before we can make a useful statement about pricing. The first has to do with the well-known economic principle of elasticity of demand. The relative intensity of the want a product satisfies directly affects the price. Products which satisfy a rare, a trivial, or an infrequent want may be sold at a high price to a relatively small market. On the other hand, if the manufacturer needs a broad market, he must lower his price until he reaches the point where a large enough number of potential purchasers are willing to buy.

Principle of Differentiation

The second point has to do with the principle of differentiation. Regardless of the urgency of the want satisfied by a product, if there are a number of suppliers, all supplying the same product, competition will force price down to approximately the lowest price possible. The wheat market will give a perfect instance of this situation. There is nothing the individual wheat farmer can do to get a price higher than the general market price less transportation from his particular farm. If a product can be differentiated, it can attain some degree of uniqueness, and can often command a higher price. At one time, ordinary spring alarm clocks became a more or less standard item, and sold at retail for about 79¢. One manufacturer began to add differentiating features to the alarm clock he made. He improved the case, he put black dials with luminous hands on the clocks, and he introduced a graduated alarm. He had a differentiated product, which then stepped out from the general competitive field, and commanded a price high enough to be very profitable.

Price Determination

If a product goes into a market of highly inelastic demand, or if it is sufficiently differentiated to become, in effect, a unique

product, the manufacturer can influence—even sometimes, control—price. But a product meeting an elastic demand, or a product competing with an ample supply of equivalent products will have to sell for whatever price it will bring—whether that price entails a loss or a profit for the supplier. It is important for the marketer to realize that cost usually does not influence price.

Demand Stimulation

Now demand is not a static force. Demand is based on physical or psychological wants. We are sometimes misled by a looseness of terminology when we speak of *creating* demand. Demand is created by the nature of man and by his wants in the environment in which he lives. Demand may be active or latent, but it must exist. The businessman, then, can *stimulate* demand.

The story of Sunkist oranges is an excellent example of demand stimulation. Oranges were an oddity, used largely on holidays. Walnuts and oranges were conventional items to go into the Christmas stocking. During a large part of the year, they were virtually without a market at any price. However, all of the constituents of demand were present, as they are now. The flavor of oranges was agreeable to most people. They afforded a markedly healthful supplement to the national diet. They made an attractive ingredient for salads. A long and successful advertising campaign succeeded in arousing and stimulating a latent demand. As a concomitant, a broad market for oranges was developed, at a price which afforded abundant profit to orange growers over a good many years.

Influencing Price

The individual manufacturer, therefore, has two ways of influencing the price of his products. One is to add one or more differentiating features which enhance the utility of the product; the other is to stimulate demand by advertising and other sales

promotional devices. If he is not able to accomplish either of these expedients, he must then accept what price the forces of the market put on his product.

41 IMPERIAL COMPANY

Problems of Price and Distribution Costs

The Imperial Company manufactures a superior line of beauty parlor products. The line includes three product divisions: "hot" and "cold wave" machineless hair-waving supplies, hair dyes and shampoos, and cosmetics. Principal sale is for professional use by beauty shops, and packaging is largely in bulk containers. Distribution is national through a selective, nonexclusive jobber system. The country is divided into fourteen sales regions. A salesman in each region handles jobber contacts. In common with trade practice, the company employs a force of skilled women demonstrators working under the salesmen, who combine missionary sales work and product demonstration.

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

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

Product demonstration is regarded as a key function, since most of the products work through chemical action, necessitating education of beauty operators in the selection of proper strength lotions for different types of hair, and instruction in the techniques of application. Also bulk packaging offers little opportunity for product differentiation because the products are not advertised to the general public. The consumer regards the operator as an authority on hair

treatment, so that the operator can readily control the use of a brand according to personal preferences. Because different makes of supplies require different techniques, operators are inclined to use brands with which they are most familiar. Manufacturers must, therefore, engage in a constant program of demonstration to get the beauty operators to accept their products.

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

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

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

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

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

The inequity of the present organization setup can be better appreciated when it is understood that the sales division has been unable, on 1953 volume, to support a competent sales promotion manager, or to match competitors' advertising and promotional operations. Maintenance of a competitive level of sales pressure is axiomatic.

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

The background of the president is perhaps worth considering for its influence on the company's development. This gentleman holds an advanced scientific degree. Although exhibiting balanced managerial interests, he is perhaps primarily a scientist, with strong interests in product development. A direct result is product superiority and insistence on high manufacturing standards. This has contributed to trade prestige and ability to secure premium prices; probably also to a more costly product than the run of the market requires—based on inferior product successes. Personal inclinations account for overdelegation of authority without a close enough check on results, accounting for certain past mistakes, and some neglect of the primary business of hard-headed production at ever-decreasing costs, making sales, and offsetting competitors' advances.

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

Hair dyes and cosmetics of the Imperial Company also show declining trends, in the face of industry growth. Total sales of all lines shows a decline due to these dye and cosmetic line losses. The com-

pany is concerned because certain individual competitors in each of its fields are known to have greatly outstripped the company. These gains were made on a price basis.

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

The lower price markets are, of course, the volume markets. Of all products, the company remains strong only in the high-priced wave field. Although this is a desirable market from a profit standpoint, it is a limited one. The stable sales trend for this item in face of industry growth, moreover, suggests that it is being squeezed by lower prices. This business depends upon a small field of better class shops which continues to prefer quality materials regardless of price, and a miscellaneous group carrying the product for very occasional sale to high-price trade. The keystone of this business is the success of the price maintenance policy in securing higher consumer prices for the shops. A question is whether this policy will work as well in the future as it has in the past.

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

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

TABLE I

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

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

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

The selective franchise plan was developed early in the depression as a price maintenance measure. Fair trade laws were not in existence, and the beauty trade was beset by price cutting. Franchise agreements specified resale prices, with provision for cancellation for failure to maintain prices. Counter display cards featuring prices and other publicity were provided. The policy was highly successful and resulted in much goodwill. The selective plan also contributed to the prestige of the higher priced wave line. During World War II, the continued use of the plan resulted in a higher price from the consumer.

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

A change in the jobber situation was also an important sales consideration. Due to wartime supply uncertainties, Imperial Company's exclusive jobbers were allowed to take on competitive lines which were lower in price. As a result, the jobbers' promotion of the company's own lower price lines, introduced after the war, were weak-

ened. The jobbers refused to accept exclusive contracts with Imperial so that in 1953 they were handling competing lines as well.

A further difficulty, due to bulk packaging, was the ease of substitution. Shop operators and proprietors can readily substitute cheaper competitive ingredients. Obstacles to packaging in individual application units are the variety of package combinations required, the low price of competing bulk supplies, and the lack of consumer brand preference. A trend to unit packaging, however, is becoming somewhat evident in the industry.

That the solution of the price problem cannot be attained by simply reducing price is attested to by reliable reports that several of the leading price competitors are at present in serious financial difficulties.

QUESTIONS

1. Should the Imperial Company continue to concentrate on the high-price wave market?
2. Would it be advisable for the company to make any changes in its handling of the dye and cosmetic lines?
3. What would be the result if the Imperial Company lowered its prices?
4. Should the company continue to sell through jobbers when they refuse to take exclusive franchises?
5. Would it be a sound policy to put greater effort into restoring the selective franchise plan with beauty shops at this time?

42 CUCAMONGA COMPANY

Comparing a General Price Increase to a Zone Increase

The Cucamonga Company, located in Maine, manufactured paper towels and other paper specialties. The paper towels were marketed under the trade name "Kuke." They were folded towels made for use in industrial plants, schools, office buildings, hospitals, and in other places where public washrooms required such a service.

Cucamonga Company sold Kuke towels in carload quantities to selected paper jobbers all over the country at the same carload price. These paper jobbers, or distributors as they were called, sold them to the consumer in quantities of from one case to one or more carloads,

with a discount according to the quantity purchased. A suggested resale price list was issued and followed in general all over the country.

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

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

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

By March, 1954, the company's sales were 25 per cent greater than in 1945. Cucamonga Company felt this was a combination of many factors. Increased manpower had played its part. There were additional distributors. There had been renewed advertising and promotional efforts. The people working in plants were used to paper towels and demanded them in their places of employment. All these factors had resulted in a general increase in demand for paper towels.

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

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

Cucamonga Company management felt that there was a possibility in the relatively near future that "B" Company would build a mill

on the West Coast. This development would make "B's" position and "D's" position stronger than Cucamonga, especially in the West Coast market. Cucamonga Company had no plans to expand its present facilities.

Kuke sales amounted to $4 million in 1953. Seventy-five per cent of this volume was done in an area east of the Mississippi and north of the Ohio-Potomac River Line. Twenty per cent came from all other areas of the United States with the exception of the West Coast. The West Coast area included Washington, Oregon, and California. Five per cent of the business came from this area.

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

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

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

Another plan suggested was that the seven men who were working in the areas designated as Zone Two and Zone Three be brought into Zone One. There was a need for smaller territories and more intensive selling in Zone One. The outlying business of Zones Two and Three could be carried on a mail order basis. Considerable savings would

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

result because the company would have the chance to build business in profitable areas. However, without direct sales effort, it was probable that the business in Zones Two and Three would decrease proportionately as Zone One business increased.

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

QUESTIONS

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

43 CERES MANUFACTURING COMPANY

Analyzing Reduction of Cash Discounts

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

The Ceres Company markets its products through some 2,500 wholesale grocery concerns located throughout the United States. The job of selling to these wholesale concerns is the responsibility of

fifteen district sales managers assigned to territorial divisions adopted by the company largely on the basis of population density.

Seventy-five retail salesmen assist the district sales managers. These retail salesmen perform very little direct selling per se. Rather, their main duties involve arranging for prominent displays in as many retail food stores as possible and checking upon the condition of stock in these stores. If an out-of-stock condition is found, the retail salesman sells enough merchandise from his car to restock the store. This transaction is credited to the account of the wholesaler with whom the retailer customarily deals, and the profit accrues to the wholesale firm.

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

The company allowed a 2 per cent discount to wholesalers for payment of their bills within ten days of the invoice date, but in recent years leading competitors gave the wholesalers a 1 per cent cash discount under the same conditions. Consequently, management discussed the desirability of reducing the cash discount to 1 per cent, but no acceptable decision was reached prior to the spring of 1954.

The cash discount question faced management again in the spring of 1954 in connection with a meeting to discuss the advisability of a price reduction for the company's products. Wheat prices had declined considerably, giving rise to pressure for lower prices for products manufactured from wheat. As a matter of fact, the benefit of lower wheat prices was offset to a considerable degree by an increase in wages and other costs. Thus, lower prices would result in a reduction of net profit.

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

rates since the 1920's when the rate of 2 per cent was first established.

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

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

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

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

QUESTIONS

1. Should the Ceres Company reduce its cash discount to wholesale grocers from 2 per cent to 1 per cent?
2. In the sale of consumer products, how much additional promotion

would you expect a wholesaler to give a manufacturer which grants larger discounts?

3. Would the manufacturer or the wholesaler be more likely to pass on to the consumer any savings or discount? Why?
4. Do you anticipate that the Ceres Company would lose much good-will by reducing its cash discount?

44 THE BEAUTY PRODUCTS MANUFACTURING COMPANY

Pricing Under a System of Special Allowances

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

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

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

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

volume leveling off, the company expected to find it difficult to hold the unit volume it had reached in 1946.

One important event in 1946 forced the company to review its policies of distribution and pricing. The passage of the Robinson-Patman Act in 1936 had the effect of standardizing the giving of promotional allowances and making them ". . . available in proportionately equal terms to all customers competing in the distribution of such products and commodities." A Supreme Court decision handed down late in 1946, after years of litigation by the Federal Trade Commission against another cosmetic manufacturer, made it illegal to supply demonstrators on the basis the Beauty Products Manufacturing Company had customarily used. The company had given some stores an allowance to cover the full salary of one or more full-time demonstrators and had refused to give such allowances to other outlets.

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

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

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

The promotion manager indicated that price levels of all commodities had taken an upward surge in the past two or three years, and that it should be possible to raise the price of Beauty Products without destroying any of the goodwill which had been built by maintaining the 1938 price of the product. The promotion manager further pointed out that the company would be at a competitive disadvantage if it should eliminate the promotional emphasis of

demonstrators if other companies did not discontinue using them.

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

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

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

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

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

QUESTIONS

1. What should be the decision of the Beauty Products Manufacturing Company regarding the maintenance of its price levels?
2. Should the company discontinue giving the special allowances to the retail outlets?
3. Do you agree with the controller that if allowances were granted on a "proportionally equal" basis, it would appreciably increase the distribution cost?

4. Would you say that the maintenance of the price level or the granting of promotional allowances is more important in the sale of Beauty Products?
5. How is it that the company can continue to make a profit and still sell its products at 1938 price levels?

45 DE LUXE COMPANY

Selling Below Cost

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

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

During the months of June, July, August, and September the company maintains only a skeleton crew and operates at about 20 per cent of capacity. In May, 1953, a buyer of a large chain store approached the sales manager of the De Luxe Company and offered to buy 300,000 pounds of package candy at 65¢ per pound. Delivery of the candy could be made during the summer months and would be packaged under the brand name of the chain store.

At that time, competition in the candy industry was very severe. The candy industry had been in a declining market both as to sales and selling prices, and manufacturers had been pricing their lines of candy at so low a point that it was difficult for many companies to make a profit.

The De Luxe Company, however, made a net profit of $15,000 in 1952 with a sales volume of $761,000. Although sales in 1953 were running about 1 per cent below the 1952 level, the company execu-

tives believed that because of some savings in labor costs, it would be possible to earn about the same profit in 1953.

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

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

Direct Material and Labor	$0.62
General Administration and Overhead	.09
Selling and Advertising	.025
Total Cost	$0.735

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

300,000 pounds of candy @ 65¢	$195,000.00
Less Direct Material and Labor Cost @ 62¢ per pound	186,000.00
Gross Margin	$ 9,000.00

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

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

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

from De Luxe, he did not believe that the company would lose too much goodwill.

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

QUESTIONS

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

46 THE MILLER SPECIALTY COMPANY, INC.

Handling a Problem of Price-Cutting

The Miller Specialty Company, Inc., of New York City manufactures textile products and allied accessories. The chief item of production is a specialty cap which is sold to children of grammar school age.

The company sells through selected retailers and directly to schools through the medium of a mail order catalog. The school authorities usually purchase the items once a year, and then resell them, at a small profit, to the children.

In the formative stages of its business, Miller initiated its mail order, nationwide sales policies, and augmented them with personal selling restricted to the metropolitan area. As the success of the specialty cap became apparent, Miller was approached individually

and collectively by retailers from all over the country. At first, Miller was satisfied with the success it had achieved through its own efforts and did not make use of these retailers.

However, as demand for the product grew, it became obvious that present channels of distribution were insufficient. Miller, although it could have developed the market itself, accepted the proposals of the retailers and began to distribute through them. The sales manager of the firm said that Miller took this action because the company was expanding and entering new and practically unrelated fields, and wished to devote all its selling skill to the new ventures; it was also determined that the cost of setting up its own nationwide organization would offset the profits of direct selling. The officers ascertained that the net profits to the Miller Company would be about the same whether it sold direct or through retailers.

The company still maintained its mail order business. The treasurer advanced the theory that, over a period of years, Miller had cultivated a large following of its own, through that medium, and to discontinue it would be folly.

The policy of Miller, regarding the retailers, was simple. Miller would ship, either in large lots or in small quantities, directly to the retailer; or, Miller would ship directly to the retailer's customer and bill the former. Both Miller and the distributors sold to the ultimate customer at the same suggested resale price.

The policy worked to the mutual advantage of all concerned. Recently, however, Miller met with a serious problem. Although seemingly trivial in itself, its solution would set a precedent that would greatly affect the pricing policy of the company.

One of Miller's best customers, the Madix Retailing Corporation, a southeastern firm, approached Miller with its plans for the disposition of a jacket which it had anticipated discontinuing. Madix wanted to sell this number at a price well below the suggested resale price honored by the rest of the trade; or it wished to return the stock (which amount to about 15 per cent of their annual purchases from Miller). The jacket was still popular, and Madix was the only retailer planning to discontinue it. The others, along with Miller, intended to continue featuring it.

In keeping with its established policy, Miller refused to accept the return. Had it done so it would have broken an expressed agreement with its distributors. It was later discovered that at the time

Madix approached the company, the jacket was already listed, at the reduced price, in the copy of Madix's catalog which was at the printers. The treasurer felt that it was obvious Madix had no hope of returning the goods, and had intended selling it at the reduced price.

Miller discussed the matter thoroughly with Madix, and the treasurer insisted that Madix should not offer the jacket at the reduced price, because it would break the market in this particular item. The treasurer emphasized that Miller's relations with its retailers had always been amicable, and he saw no reason for a change at this time. He also pointed out that if Madix sold at the lower price, Miller would refuse to do business with the company in the future.

Madix went ahead and advertised to the public, featuring the item at the reduced price. Immediately Miller was flooded with protests from other retailers who demanded an explanation, as they felt Madix was being given special consideration.

It was obvious to the officers of the Miller Company that a definite course of action had to be formulated. Solutions were offered to the president by the treasurer and by the sales manager. The latter claimed that the treasurer should have quietly accepted the returns in the first place. By keeping the matter a secret no harm would have been done, and the customer would have been placated. He advocated that Miller continue to do business with Madix because, as one of the largest customers, Madix deserved special consideration.

The treasurer was in direct disagreement with the sales manager. He pointed out that Miller's agreements with the retailers were based on trust and honor, not volume of sale. He maintained their policies should be substantially the same for all customers, regardless of their size. He sighted the success of past policies and the fact that this was the first complication they had met. Although he admitted the volume in the Madix case was negligible, he believed other retailers would have lost faith in the company if he had accepted the returns. He contended that Miller owed it to all the retailers (including Madix, who might be the first to complain had one of their competitors attempted the same thing) to maintain and enforce their present policy.

QUESTIONS

1. How should the Miller Specialty Company deal with the Madix Corporation?

2. Do you agree with the sales manager that the treasurer should have quietly accepted the returns from Madix? Why or why not?
3. What policy should a company follow in handling firms which cut price?
4. Do you agree with the treasurer that all companies should be treated the same regardless of the volume which they purchase?
5. Why do you believe it was possible for the Miller Company to maintain its pricing policy so successfully?

47 THE GRAYSON HOTEL

Pricing Policy for Dining Room

Throughout its fifty-year existence, the Grayson Hotel enjoyed a fine reputation as a comfortable, clean, and hospitable hotel. Even today, it is filled with a warm, friendly atmosphere. Constructed during the Spanish War days, it lacked nothing then known to builders and hotel men.

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

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

During the latter part of 1952, the hotel was sold to a group of investors, after having been owned and managed by the same people for over twenty-five years. The new operators continued operating the hotel under the old management's system until October, 1953; then, seeking to increase food sales and volume, they changed its menu and price policy to an "a-la-carte" basis.

Prior to the change from the standard menu price policy, the price

of the luncheon entree included soup, dessert, and a beverage; the price of the dinner entree included the entire meal without an extra charge for soup and dessert. Under the old system of pricing, food sales and the number of covers increased about 3 per cent from 1952 to October, 1953, but this was offset by increased food and labor costs. Following the adoption of the a-la-carte method of pricing, food sale schedules from November, 1953, to March, 1954, showed a decrease in the total cover sales, but the average cover or the average size of food check was about 15 cents greater. This was due to the extra charges for desserts and beverages. See Schedule I.

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

Attention was also focused upon labor costs involved in the preparation and sale of food. The direct kitchen labor costs included salaries and wages for the chef, first and second cooks, the steward, assistant cooks, and pot and dish washers. In the dining room, general labor costs included wages and salaries for hostesses, waitresses, and busboys. The size of the payroll for these two divisions varied according to the number of weeks in the monthly payroll as well as the number of accrued days of labor costs. Because labor costs were increasing (see Schedule II), the work schedule was rearranged during April, 1954. It was felt that both direct and indirect labor costs would be materially reduced. Some saving should be realized because of the release of two kitchen employees and two hostesses.

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

SCHEDULE I

Grayson Hotel

Schedule of Food Sales for 1953-1954

Date	*Food Sales*	*Number of Covers*	*Food Cost Percentage*
January, 1953	$13,193.73	13,292	43.2
February	12,232.71	13,134	33.7
March	14,840.22	15,139	42.3
April	15,911.66	16,936	33.7
May	15,502.15	16,558	39.7
June	15,302.85	15,935	45.8
July	13,266.57	13,284	44.8
August	14,572.02	15,053	43.5
September	15,091.21	15,471	43.6
October	15,697.03	16,295	44.8
November	15,022.97	14,233	47.2
December	15,481.87	14,100	41.9
January, 1954	12,601.56	12,213	41.0
February	11,246.96	11,007	43.7
March	11,787.75	11,100	42.3

SCHEDULE II

Grayson Hotel

Schedule of Labor Costs for Food Preparation and Sales

Date	*Food Kitchen Direct*	*Dining Room General*	*Total Labor Cost*
January, 1953	$3,064.65	$1,514.27	$4,578.92
February	2,743.24	1,176.93	3,920.17
March	3,295.72	1,699.59	4,995.31
April	3,385.24	1,789.41	5,174.65
May	3,435.32	1,861.11	5,296.43
June	3,261.75	1,716.08	4,977.83
July	3,024.43	1,431.56	4,455.99
August	3,385.54	1,710.44	5,095.98
September	3,224.59	1,939.64	5,164.23
October	3,482.45	2,220.50	5,702.95
November	3,392.78	2,212.29	5,705.07
December	3,879.67	2,852.84	6,732.51
January, 1954	3,579.06	2,270.62	5,849.68
February	3,428.44	2,283.71	5,712.15
March	3,702.76	2,381.98	6,084.74

QUESTIONS

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

48 FAIRMONT BRUSH CORPORATION

Promoting Different Price Lines

Fairmont Brush Corporation manufactures brushes for men and women and is the leader among three manufacturers supplying brushes to the consumer trade through drug stores.

However, within the six years from 1948 to 1954, Fairmont lost business to its competitors. The Fairmont Brush Corporation has two brushes—one selling for $3.00 and the other for $5.00. The more expensive brush was introduced to the market in 1953, right at the time when wholesalers and retailers were more interested in reducing inventories than in buying new merchandise. Despite this situation, the sales organization was able to secure distributors.

With increasing income, consumers continued to spend lavishly for drug and cosmetic items. Even though prices of most drug products remained relatively stable during this period, demand for larger sizes and more expensive items continued to increase dollar retail sales. Nielsen figures showed that retail sales of brushes shared in the increase. A contributing factor was the shift away from brushes selling under $3.00 to brushes in the $5.00 class—a development in which Fairmont was unable to participate because there was no Fairmont brush until 1953.

Since sales through drug stores represented from 50 per cent to 60 per cent of total Fairmont volume, with the balance going through variety, department, and other miscellaneous retail outlets, it was possible that the drug store sales were not truly representative of

the over-all Fairmont picture. Results of several consumer use studies, however, seemed to confirm the drug store sales in a general way—that Fairmont had about held its own, whereas the other brands had increased their volume. For example, the Fawcett "Beauty Readers Forum" showed Fairmont holding its own between 1945 and 1950 with 19 per cent of their readers using Fairmont in both years. The *Milwaukee Journal* showed 14.5 per cent Fairmont usage in 1948 and 13.4 per cent in 1953.

There was some evidence that consumers were buying the $5.00 brush at a more rapid rate than stores were repurchasing, with the result that 6 per cent of the stores were already out of stock.

The recent picture of the $3.00 brush in drug stores presented these factors:

1. Consumer sales of brushes under $3.00 now represent only 25 per cent of all units as against, roughly, 60 per cent in 1945.

2. Fairmont's hold on the market reached a peak in 1941, when Fairmont did 50.2 per cent of all lower price business. This has since declined to a current figure of 44.7 per cent.

3. Independent retail stores inventory of Fairmont's $3.00 brushes has shrunk by 33 per cent since July, 1953. This shrinkage is twice as large as the 14 per cent inventory cutback for the whole market. The effect has been to lessen seriously the number of Fairmont brushes on display.

4. Actual unit sales of Fairmont brushes on the whole have not been too adversely affected by the promotion of the $5.00 item. Fairmont's $3.00 brushes account for better than 40 per cent of all unit sales in the $3.00 price class, which is over twice as large as its nearest competitor (19 per cent). There are, also, some indications of greater consumer interest in low-priced brushes. Latest Nielsen figures show that Fairmont's $3.00 brush is under pressure—inventories are low—distribution is sagging.

Some variety syndicates urged price reductions of $3.00 items and claimed that they could greatly increase unit sales if the prices were cut to $2.75.

QUESTIONS

1. Should all consumer promotion be concentrated behind the $5.00 brush, or should a part of it be devoted to holding the franchise on Fairmont's $3.00 brushes?

2. If Fairmont's $3.00 brushes are unsupported with a consumer effort, can they be successfully promoted with point-of-sale advertising?
3. How should the problem of declining stores inventories on Fairmont's $3.00 brushes be handled?
4. Is this the time to reduce the price of Fairmont's $3.00 brushes to $2.75 as suggested by certain variety syndicates?

49 VOGUE HANDBAG COMPANY

Facing Price Competition

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

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

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

After completing their regular end-of-season trip in the spring of 1954, the company salesmen submitted comments as to the condition of the market, and the price and type of products that would go well in the fall season. The sales manager summarized these comments by stating that the Vogue line was over-priced when compared with competitive lines. He believed that this price advantage had resulted in a low volume of sales. The sales manager felt that Vogue bags were

too heavily built internally, with unnecessarily elaborate waddings, muslins, and papers. The excessive construction elements used to give the "right feeling" to the bag brought about a price that was too high. He pointed out that, when selling handbags, the important factors are price and style. He said that women do not buy handbags to last forever, and the present type of internal build-up was unnecessary. Since women rarely look beyond the outside appearance of a bag, this executive suggested that it would be best to meet competition by using fewer internal materials, thereby making possible a lower schedule of prices.

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

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

QUESTIONS

1. What action should the company take to meet price competition?
2. How important is it for a company like Vogue to limit its production to the high-style, high-quality, high-price line?

3. What is your opinion of the vice-president's recommendation to introduce several simpler styles at $10?
4. If such bags were introduced, would you sell them under the Vogue brand?
5. In establishing policy, how important should the comments of the salesmen as to the condition of the market be to management?

CHAPTER NINE

Selection of Channels of Distribution

Because of the "scrambled" merchandising we have developed, there is less and less a conventional pattern of channels of distribution which the manufacturer can follow. The lack of a stable pattern, however, does not reduce the selection of channels of distribution to a catch-as-catch-can process. There are some definite requirements to consider.

The objective of the selection of channels of distribution is to pick out those intermediary institutions which can get a product from its point of production to its point of consumption rapidly and efficiently, and with sufficient selling aggressiveness to maximize market opportunities.

Choosing Consumer Outlets

The first consideration must necessarily be the determination of what type of terminal institution to use. In the consumer goods field, the terminal institution will be some type of retail establishment. In the industrial field, it may be any one of a number of semi-wholesale establishments, such as mill supply

firms and distributors. Because of the great variety of possibilities in the industrial field, it will be simpler to concentrate attention on the consumer goods field.

Consumer Contact

Regardless of the manufacturer's convenience or preference, the first consideration in selecting the type of retail store he will attempt to reach is whether the store is appropriate to the merchandise. Although the consumer has contributed to the scrambling of merchandising, there are distinct limits to the consumer's purchasing versatility. One of the major mail order firms recently gave up the attempt to sell a low-priced automobile. A similar unsuccessful attempt had been made several years before by a leading department store. Although a woman might willingly buy a house dress or an apron at a supermarket, there is very little chance that she would be willing to buy an evening dress there—regardless of the price inducement. Unless the product under question is one of trivial importance, and likely to be purchased on impulse, the manufacturer should select a type of store in which the consumer expects to find his kind of product.

Adequate Physical Facilities

A second consideration is that of selecting stores which have the physical facilities necessary for the stocking and sale of his product. Frozen foods, for example, cannot be sold through stores that do not have refrigerated cases. Men's clothing should be sold through outlets having facilities for bushelling (alteration). Rugs and carpets must be sold through stores that have adequate display space.

Proper Sales Effort

A third consideration is whether a certain type of store can, and will, exert the amount of sales pressure needed to sell the product. Typically, supermarkets, which exert little sales effort apart from display and some point-of-purchase and newspaper

advertising, do not do an aggressive sales job in introducing a new food product. Possibly store demonstrations can be arranged to supplement the passive selling of the supermarket. But in the absence of such additional sales devices, the supermarket is not the most efficient retailing institution to pioneer a new product.

Need for Technical Knowledge

A fourth consideration is the availability of technical knowledge. Is the product one which the consumer can use without technical advice? If not, that advice must be available. Most specialized paint and wallpaper stores are able to give technical advice to customers on such questions as: How much paint should be purchased to cover the walls of a room of a given size? What preparation should a surface receive before wallpapering? What should be used to thin a given paint? With the continued increase in the "do-it-yourself" market, it will be more important than ever to provide this technical information.

Selection of Intermediate Channels

Not until the type of retail store has been selected is it possible to determine the intermediate channels of distribution to be used. And then very much the same kind of questions arise.

Contact with Retailer

In the first place, what type of wholesaler reaches the type of retail store selected? If the department store is selected, it would be foolish to attempt to reach the large-city department stores through a conventional dry goods wholesaler, because such stores have a strong preference for buying direct, through buying offices in major market cities. If the supermarket is selected, a food broker might be the ideal intermediary, because supermarket firms are accustomed to dealing with food brokers. The wholesale institution having sales contact with the type of retail firm needed is the one that should be sought.

Adequate Facilities

The wholesale firm that habitually deals with the type of retailer selected will, in all likelihood, have the facilities needed to handle the merchandise. The problem of applying selling pressure, however, is a major one. In general, it can be said that the ability of a wholesale firm to apply aggressive selling is in inverse proportion to the number of lines of merchandise it carries. Manufacturers' agents carrying only a half a dozen lines of merchandise can be expected to sell aggressively. A full-service wholesaler carrying hundreds or thousands of products will do little more than take orders. Moreover, the ability and willingness to supply technical information is largely associated with the ability and willingness to do aggressive selling.

Need of Continuous Appraisal

The wholesale firm which seems, in terms of sales contact with the proper group of stores, the logical choice may not be the one which can, or will, do sufficiently aggressive selling. Thus, some sort of compromise between conflicting preferences may be necessary. No generalized statement can be made about this type of dilemma. But it can be said that the selection of channels of distribution for a particular product should never be regarded as permanent, but rather, always under appraisal and subject to revision and improvement.

50 THE PALMER COMPANY

Limiting the Types of Middlemen

In 1953, the Palmer Company, one of the largest manufacturers of soaps and toilet articles in the world, acquired the business of the Moray Company, which manufactured Gleam Creme Shampoo. It was felt that this nationally known and accepted creme shampoo would be a valuable addition to the company's line of toilet articles.

In order to retain the old Moray contacts, the Palmer Company

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

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

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

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

After receiving this deluge of requests and recommendations for adding wholesalers of this type, a further conference was held with the company's top management. After thorough discussion and an analysis of the trends, it was decided that Gleam Creme Shampoo would be made available to retailers everywhere, in towns with popu-

lations under and over 10,000, through wholesalers having the trade classification of *wholesale drug* or *wholesale notion house.* The Palmer organization salesmen would call on and sell all such accounts in cities with populations of less than 10,000 and also those in cities with populations over 10,000 that were not worked by the Moray division representatives. The Moray division salesmen would contact and sell all such accounts located in cities on their list.

However, some wholesalers on the list, to whom the company had been selling from the outset, did not have the trade classification of *wholesale drug* or *wholesale notion house.* The company's policy was to allow these accounts to remain on the list and to continue to supply them until it was no longer to its best interest to do so. With the exception of these, no accounts having a trade classification other than *wholesale drug* or *wholesale notion house* were to be sold. Any new wholesale account for Gleam Creme Shampoo had to be rated or listed by Dun & Bradstreet as either a *wholesale drug house* or a *wholesale notion house* before being allowed to handle the product.

QUESTIONS

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

51 VAN-PAUL FASHIONS, INC.

Considering the Use of Direct Selling Techniques

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

The exclusive right to market any promotional item (such as ties, scarves, and handkerchiefs) made by this process was formerly assigned by Acme Manufacturing to the Globe Trading Company. Globe in turn gave Van-Paul an exclusive franchise to sell the scarves in return for 20 per cent of the wholesale selling price. This arrangement was changed recently to allow Van-Paul to deal directly with Acme. However, Globe Trading was to receive a commission of 4 per cent of the wholesale selling price for each scarf sold.

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

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

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

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

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

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

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

of a one-half column ad in three movie magazines having a combined circulation of 1,500,000.

Van-Paul would have to sell about three hundred scarves in order to cover the cost of space alone. In addition, there would be advertising production and handling and shipping costs. Because of these additional costs it would probably be necessary, in order to break even, to sell five hundred scarves per advertisement. Any number over five hundred would represent a profit.

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

QUESTIONS

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

52 MIDWEST ELECTRONICS CORPORATION

Deciding on a Channel of Distribution for a Specialty Product

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

In the opinion of the officers of the firm, several factors were expected to favor its survival and growth. First of all, the product was

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

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

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

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

1. Have one national representative cover all markets and areas and act as the firm's sales force.

2. Have one national representative in each type of market—

business, institutional, professional, and consumer—or split the markets among two or three representatives already established in those fields.

3. Have regional or local representatives, instead of national—either one per region or trading area, or one for each class of trade in each territory.

4. Start with distribution locally and within the surrounding region—through a single representative or by direct contact with distributors—and expand gradually.

5. Sell through large department stores, chains, and/or mail order houses.

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

1. Distribution was to be exclusive, selective, or open.

2. Manufacturers' agent(s) or regular distributor(s) were to be used (the former selling on commission, the latter purchasing for resale).

3. Full-line electrical wholesalers or agents, or specialty distributors or agents (radio, phonograph, etc.) were to be used.

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

The firm's vice-president, on the other hand, pointed out that the plan had several serious shortcomings. To contact numerous local distributors would require a large sales force and advertising outlay for sales promotion and support. The granting of exclusive territories to regular radio distributors might result in neglect, or in only superficial coverage of the business, institutional, and educational fields, and in insufficient development of the professional market. Although the publicity and prestige which a large department store could provide were fully acknowledged, there were also certain bad features. Exclusive distribution through a single retail outlet, no matter how large, would limit sales volume to a small portion of its potential in the area; department stores were in a position to dictate to a small

manufacturer in such matters as price—either price to them or retail price—and styling; their promotional effort could not be controlled and could not be intensive on any one among the scores of items in their radio and phonograph department; and there was some feeling in trade circles that department store distribution of such a product, rather than creating prestige, might actually tend to cheapen it in the eyes of the public—particularly if the store were not itself a "prestige" store.

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

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

1. No single distributor would be given exclusive territories, irrespective of the size of territory or type of distributor. Instead, for general coverage, two alternate plans were recommended: appointment of one national representative for the home market—selling to regional and local distributors as a manufacturers' agent (on a commission basis) and acting as Midwest's sales force for the home market; alternately, appointment of regional manufacturers' agents, possibly one in each basic marketing area, to cover the home market in the same manner, but on a more localized, decentralized basis. In either case, the agents chosen would have to be radio, phonograph—or at least electrical appliance—specialists, with a sales force and contacts numerous enough to cover their assigned territories. Through them, exclusive local distributors, limited to retail sales, would be appointed. Thus, most of the advantages of a large sales force could be obtained without the cost; selling expenses would bear a fixed ratio to sales and would not be incurred without actual sales being made. Credit risk, and warehousing and shipping costs would

remain unchanged from those of the president's plan of direct solicitation of distributors.

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

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

(b) Regional and district sales managers of existing dictating-machine manufacturers, desirous of setting up on their own as independent distributors and of building the necessary sales force.

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

QUESTIONS

1. What method of distribution should the Midwest Electronics Corporation adopt?
2. In deciding upon the channels of distribution, how important is the fact that Midwest has a 30 per cent price advantage?

3. What are some of the important problems which the company may face if it adopts the president's recommendation? The vice-president's recommendation?
4. When it is difficult to predict the future potential demand for a specialty product, is it better to take the "cream" from the market or to plan on long-range objectives?
5. Give the advantages and disadvantages of the Midwest Electronics Corporation using a department store, mail order house, manufacturers' agent, and a sales agent.

53 THE SAMPSON MACHINERY COMPANY

Selecting a Channel of Distribution for an Industrial Product

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

The manufacturing is separated at six plants according to the different products. The smaller and more popular products (pumps, compressors, and drives) are considered "standard products" and are built in quantities in specific shops set up for large-scale production.

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

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

The thirty-two merchandising salesmen in most cases are not graduate engineers, but are especially schooled to teach dealers how to sell smaller products to small industries. They are also schooled in the

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

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

At headquarters, the sales organization consists of divisions specializing in the sale of each product, and a merchandising sales department promoting the sale of standard products through resale outlets and formulating sales campaigns and educational programs to dealers and original equipment manufacturers.

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

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

QUESTIONS

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

54 JOSEPH WASSERMAN AND COMPANY, INC.

Looking for New Outlets to Increase the Market

Joseph Wasserman and Company are producers of Schifflie Embroidery, which is used primarily for blouses, dresses, and children's wear. The bulk of the material is sold to manufacturers of blouses, dresses, and other products. The company sells occasionally to a few jobbers who sell to the retail trade; it has also made slight inroads into the direct retail market in the east. Wasserman is not equipped to concentrate on selling to the jobbers or to the retail trade. Inasmuch as the center of the cutting-up blouse and dress industry is in New York, most of the company's sales efforts have been limited to that market. Although the company would be considered a small one, it ranks sixth in gross volume among those firms engaged in the same business. The gross of these firms is from $800,000 to $1,000,000 per year. The company employs nine salesmen, of which five are in the New York area and one each in Los Angeles, Chicago, St. Louis, and Dallas. Both the out-of-town salesmen and the New York salesmen are paid a straight 5 per cent commission and are allowed to handle

other lines for firms which are related to the garment industry. The contact with these out-of-town salesmen is maintained by mail or wire and is usually originated by the salesmen. Once or twice a year the president makes a trip around the country to survey the situation.

In addition to Schifflie Embroidery, the company also handles a small quantity of imported laces and a small quantity of plain goods which are not embroidered. These are handled only for accommodation and do not comprise any important part of the firm's business.

The industry is a highly competitive one. There is only about $15,000,000 to $20,000,000 worth of goods sold per year for the entire industry, and this is divided among sixty firms. Although these firms call themselves producers, they are not manufacturers but, rather, contractors. These contractors secure the lace, make up a style or design for the embroidery, and then sub-contract the cutting to a "stitcher." Here lies another source of competition. The stitching machines are owned by the "stitchers" (there is no other name known for these people by the trade). The ownership of these machines averages about two per "stitcher." There are not very many machines of this type in America, nor are many being imported from Switzerland where they are made. As a result, the price for these machines and their use is extremely competitive and is subject to the usual laws of supply and demand.

Furthermore, little capital is needed to start in the embroidery business. Although the large firm has several advantages, the overhead and general cost of running the business cuts the profits and requires a great deal more capital. The little man can begin with small capital, be his own salesman and leg man, carry no stock, operate on a quick turnover, and have goods stitched only on order. There are presently many such small operators in the industry.

Another source of sales competition is the stitcher himself. In the bad periods he will contact the cutting-up trade directly and will stitch the goods for the trade at a much lower rate.

One of the other important competitive factors is the similarity of the product and the lack of differentiation in the various producers' finished products. Because the machines are identical there is no quality difference, and overhead costs are about the same.

Because of the competitive nature of the industry, Joseph Wasserman and Company is seeking new outlets and considering devoting more time to selling directly to the retail and chain store trade.

Previously, this retail trade was not an important part of the business for the jobbers or producers in the embroidery field. There was not much over-the-counter demand for lace embroidery, and almost all the production went to the cutting-up trade. In the last two years, however, there has been a noticeable increase in this over-the-counter market. Surveys conducted in the last year indicate that the increase in the home-sewing market has been due mainly to the general high cost of living and the creative hobby angle in which women have become interested.

About two years ago there were only two or three producers making a concentrated effort to sell the chain stores and large retail buying organizations. Now there are about thirty different firms sending salesmen to call on these organizations, so that this business has also become highly competitive. However, not every source of supply is equipped to handle the retail trade, because the chain store and retail buying house must be guaranteed quick delivery. This means that the contractor must produce in advance and accept the risk of getting the orders.

Throughout the war, and up until 1951, Joseph Wasserman and Company had as much business as it could handle and did not feel that it was equipped to handle the retail trade's demands. In the past year business dropped off, and the company now believes that it is in a position to service the trade and meet its production and risk demands.

Joseph Wasserman, Sr., the president and owner, is opposed to the project. He does not believe that his business is slumping badly but that it is merely returning to normalcy. He has built up a large business and made a sizeable profit by selling to the cutting-up trade only; he has held his own against all forms of competition.

The president's son, Joseph Wasserman, Jr., believes that the company must have additional outlets to maintain its high standing in the industry. He admits that the competition and risk is great, but he is convinced that the home-sewing and over-the-counter market will continue to increase. Since the company is not equipped to handle immediately the demands of the retail stores, he intends to concentrate on the buying offices in New York, which he can contact himself without hiring a large crew of salesmen.

The main job, in his opinion, is merely one of selling the buyers. He believes that if he can solve this merchandising problem he will

be able to net a nice profit for Wasserman on the additional business.

At present, the merchandising of embroidery in retail stores is very poor. There are no displays, and the embroidery is generally laid on the counter on large cards, the same form in which it is shipped from the producer. The only concession that has been made is to put a large card (thirty yards) in a cellophane bag to prevent damage in shipping. The embroidery is taken out of the bag when put on the counter. Because of handling by customers, the goods become soiled and the cards torn and disarranged; also it takes a long time for the salesgirls to measure out the required amounts.

In talking to the buyers in New York, Joseph Wasserman, Jr., pointed out these problems and said that with the help of the buyers, he believed he could develop a satisfactory solution.

Although the buyers appreciated his concern with the merchandising problems, they were not willing to switch to the Wasserman Company. They indicated that there were no price and quality differentiations, and they were not convinced that Joseph Wasserman and Company would be able to solve the merchandising difficulties. They expressed the opinion that when the company did solve the problems to their satisfaction, they might make the switch from their regular sources of supply.

Joseph Wasserman, Sr., realized the importance of the merchandising angle, but was not convinced that this was all there was to the problem. The broader marketing difficulties also bothered him, and he did not believe that the company was adequately set up for production to meet the buyers' demands. In his opinion, it was also questionable that concentration on the New York market would bring a profit worth the cost and risk involved. Furthermore, he did not believe that the organizational problem was as simple as his son had pointed out. He doubted if his organization's finances and business setup could handle the personnel and distribution problems that were sure to arise.

QUESTIONS

1. Should Joseph Wasserman and Company attempt to secure additional outlets? If so, what outlets would you recommend?
2. In a highly competitive industry of this kind, what do you believe is the future potential for a firm such as Wasserman?

3. Would it be possible for Wasserman to discontinue allowing its salesmen to handle other lines?
4. How important are the New York buyers in purchasing goods such as embroidery for retail stores? Do you agree with Joseph Wasserman, Jr., that his main job was one of merely selling the buyers?
5. What solutions would you recommend to improve the merchandising of embroidery in retail stores?

55 VAN EDEN SOLVENTS COMPANY

Selecting the Channel of Distribution for a New Product Line

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

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

The company had a sales force of fourteen men by 1941. One of these men sold to the automobile supply chains, three sold to hardware wholesale firms, and the remaining ten called on automobile supply wholesalers. By 1941, the company had built up a sales volume of $2,800,000. Because some of its leading products were made of noncritical materials, it had been able to increase its sales markedly during the years of World War II, and to reduce its selling expenses materially at the same time. By 1947, its sales totaled nearly $7 million a year.

The executives of the company were convinced that many of the products developed during the war years would offer them sharp competition when raw materials were again freely available, and had,

therefore, undertaken a program of intensive product research. Although several new products appropriate to the company's usual channels of distribution had been developed, and important improvements had been made in some of its regular lines, the executives believed that two new products offered greater market potentials.

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

A marketing research firm, which was engaged to study the market possibilities, reported that, although there were several refrigerator polishes on the market, none was as efficient nor as easy to use as the Van Eden product, and that the new cleanser was unique. The research firm also reported that housewives showed a high degree of interest in both new products.

In the past, Van Eden had depended largely on point-of-purchase display material to sell the Slix products and had confined its advertising to a small annual budget in trade publications. Most of its advertising funds had gone to develop and distribute sales racks, dealer display material, and leaflets that wholesalers could send to their customers with their monthly bills.

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

On the other hand, the marketing research firm, which had made the study of the potential market for the two new products, made the very emphatic recommendation that Van Eden seek distribution for the two new products through supermarkets, since—they said—housewives made relatively few visits to hardware stores, but shopped at supermarkets regularly. In addition, the research firm recom-

mended the start of a relatively modest but continuous program of consumer advertising to support the introduction of the new products.

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

QUESTIONS

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

56 HOFFMAN CARPET COMPANY

Importance of the Wholesalers

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

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

The Hoffman Carpet Company is engaged principally in the business of manufacturing and selling wool pile rugs and carpets

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

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

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

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

1. The Hoffman Carpet Company will have to expand greatly its organization and capital structure to utilize its production facilities if it decides to distribute the products directly to furniture and department stores.
2. The wholesalers that can be secured are willing to provide storage space for the rugs. In addition, they will buy rugs and hold them until they are needed by local retailers. This will greatly reduce the amount of warehouse space needed.
3. The wholesalers will aid the company with its problems of finance. By buying and paying promptly for goods as they are produced, the wholesalers will lessen substantially the amount of capital required. Capital requirements will be much larger if Hoffman has to hold the goods until they are ordered by the retailers.
4. The wholesalers will undertake the task of sales and distribution for Hoffman on a national basis. This method will be more economical than any other. For Hoffman to sell direct to re-

tailers will require the company to train and send into the field a large staff of salesmen, many of whom will not even know the prospective customers. The wholesalers who have agreed to handle Hoffman rugs are old friends of the retailers on whom they call. The retailers have learned to trust these salesmen and are likely to be more receptive to their recommendations than to those of Hoffman salesmen.

5. The distributors will be able to keep Hoffman advised on market conditions, the nature of the goods which can most readily be sold in the market, the types of patterns which consumers seem to prefer, and the price range which makes the greatest appeal.
6. The handling cost will also be lowered substantially by distributing through wholesalers. When distributing in this manner, Hoffman will be able to load full cars and ship them on. If Hoffman sells to retailers direct, it will be necessary to employ a much larger warehouse force to fill the multitude of small orders which, of necessity, will come from retailers. By ordering rugs in car lots, the wholesalers will not only lower the distribution costs of Hoffman, but will also contribute to lower costs to retailers.
7. Lastly, going through wholesalers will simplify Hoffman's credit problem. If the company sells direct to retailers, it will be necessary to keep a check on retail accounts scattered throughout the United States. Although it is true that Hoffman will have to check the credit standing of the wholesaler, the number involved will never be very great.

The shortage of production and the high demands for floor-covering products during the war period made it impractical for the company to set up its own distribution program. With the end of the war, one of the largest carpet companies set up its own warehouse facilities and sales offices in various strategic locations throughout the country to take over the selling activities previously conducted by wholesale distributors.

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

As a result, Hoffman dropped the idea of selling direct and concentrated on building up and establishing stronger wholesaler contacts. The sales results had not been as satisfactory as the company had hoped, and by 1954, at the time the company was reviewing its distribution policy, the sales volume had not shown any increase since 1951.

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

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

The wholesalers sold Hoffman's products to furniture and department stores, mail order houses, and contractors of theater and hotel supplies and home furnishings. In 1953, the proportions of sales through these outlets were as follows:

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

QUESTIONS

1. Why do you believe that Hoffman's sales have not increased since 1951?
2. Is it possible for a wholesaler who sells a number of other related products to do a satisfactory merchandising job with rugs and carpets?
3. How important should the decision of a large manufacturer to shift to direct distribution be to the Hoffman Company?
4. What channels of distribution would you recommend for the Hoffman Carpet Company?

CHAPTER TEN

Sales Organization

A manufacturer's salesmen typically work in the field, away from the home office, and out of the reach of close and immediate supervision. The salesman who sells an established product, on commission, to a well-defined market has no choice but to work industriously if he is to get an adequate salary. But in a great many more cases, the situation is not so simple. The salesman is expected not only to bring in orders which will keep the factory busy for the present but also to develop new accounts which will afford the basis for growth and development. He is expected to devote a considerable part of his effort to developmental work which will not show immediately in his sales volume. He must, when he is in the field, provide his own stimulation and manage his own time and effort. What kind of sales organization can bring about this near-miracle?

Basic Organizational Decisions

There are several basic decisions to be made—decisions regarding territorial assignment, sales quotas, specialization, compensa-

tion, supervision, and instruction. The attempt to cope with each of these problems singly is dangerous. It is far better to follow the lead of successful supervision in the area of manufacturing and to approach the problem of sales organization from the standpoint of job analysis and job specification. Just what are our objectives in selling? Not until we can formally state these objectives are we ready to attempt to determine how to achieve them.

Selling Objectives

The selling objectives of a company will be determined by the nature of demand, the kind of prospects comprising the market, the geographical distribution and territorial coverage needed, the nature of the merchandise or service to be sold, and the length of the product line.

Differences in Sales Jobs

A salesman selling wrapping paper to small grocery stores has an altogether different job from that of the salesman selling paint to automobile manufacturers for finishing cars. In the first case, there is very little that the retailer does not know about wrapping paper. Adequate frequency and timing of sales calls, suitability of terms, quality of product, promptness of delivery, and competitive price are requisites of selling. The salesman may have several thousand accounts on whom he is supposed to call. On the other hand, the salesman of automotive finishes may have two or three accounts. He will virtually live with his accounts, and hold his business on the basis of personality and technical knowledge. If there is not a steady flow of orders from the former salesman, he is not doing his job. But the results obtained by the latter salesman may not be evident for a year or two. These are probably extreme cases. Yet consider some of the kinds of jobs salesmen are asked to undertake: the sale of earth moving machinery to contractors; the sale of space in

national magazines; the sale of mortgage loans for savings and loan institutions; the sale of advertising agency service; the sale of air conditioning equipment to manufacturing establishments. The Timken Division of General Motors has been trying to sell roller bearings to railroads for freight trains for many years: once the initial decision on the part of a number of railroads is made, replacement sales will be a routine matter.

Sales Organization

The analyst should keep in mind several general questions with respect to sales organization. The first of these has to do with the amount of compensation a salesman may earn. There seems to be a prevailing feeling on the part of many sales managers that when a salesman's income rises to high figures, particularly if he is paid on commission, it should be decreased. If the original rate of commission was properly set, *and if the salesman is doing an adequate job in cultivating his market,* the attempt to hold his earnings down is usually a mistake. It is the sales manager's job to maintain sales at a reasonable selling cost. A salesman should never be penalized for doing a good job.

Another general consideration—one previously mentioned in discussion of channels of distribution—is that the greater the degree of sales aggressiveness required, the narrower a line of products a salesman can handle, and the smaller the number of prospects he can cultivate. For this reason many firms selling a number of different products to the same customers still have salesmen specialize by product, or by a narrow line of products. In that way, salesmen will become well-informed specialists in what they sell, and will develop the necessary aggressiveness.

Selection of Salesmen

To assure good selling suitable candidates for selling jobs must be selected. Impressive strides have been made in psychological

testing for qualification for selling work. In the present development of testing techniques, the more definite and specific the selling assignment is, the more likely it is that tests will select the most suitable candidates. And however successful tests are in selecting salesmen, there must still be continuous supervision and encouragement.

Compensation of Salesmen

There long has been a disagreement as to the best method of compensation for salesmen. Should they be paid a straight salary, a straight commission, a drawing account and commission, a combination of salary and commission, or a salary and bonus? Examples of the successful operation of each of these methods of compensation can be found, and probably opposite examples of unsuccessful operation in about the same proportion. Skillful sales administration will make any reasonable method of compensation work, and unskillful sales administration will cause any method to fail. Certainly, the salesman must have incentive to do the aggressive and creative selling job he is expected to do. Whatever method of compensation is used, it must allow the salesman to participate in his contribution to the welfare of the company for which he works. Generally, the more completely a salesman's work is confined to immediate selling, the more satisfactory a commission form of payment is; generally, the more completely a salesman must devote his time and effort to building for future sales, the more satisfactory a salary is.

Sales Management and Selling

It is important to emphasize the fact that there is considerable difference between sales management and selling. Often, the best salesman is made a sales manager—to his and his company's disadvantage. An important characteristic of a good salesman is his ability to influence the thinking and actions of others. On the other hand, it is the task of the sales manager to determine

the given course of action, and meticulously to implement it. The mental characteristics needed for each job are almost the opposite of one another.

57 THE EL CAMINO COMPANY

Planning an Advertising and Sales Program

The El Camino Company sells remembrance advertising (consisting of calendars, direct mail, engravings, novelties, advertising playing cards, and leather gifts) through twenty sales offices located in every section of the country, plus more than a dozen foreign offices.

All products sold by the El Camino Company are manufactured or processed in the company's factory in Knoxville, Tennessee. Some items sold by this firm are partially fabricated by other manufacturers, but finished and packaged by El Camino.

Over five hundred salesmen are employed, working on a straight commission basis. As many as sixty salesmen cover each of the branch office territories. In some branches, the territory consists of a part of a city. For example, the New York Office includes the island of Manhattan and the Bronx; the Brooklyn territory encompasses Brooklyn and Long Island. There is no territory designation within the territory for each salesman working within the city bounds of a particular branch. Instead, each salesman covers the same ground. The reason for the lack of intraterritorial assignments is that all people in business are potential customers for the El Camino line. Therefore, any one salesman could not solicit the maximum market in the business area of a large city. Moreover, if an intraterritorial plan were used, new salesmen, constantly being hired by the firm, would probably be relegated to nonproductive sections of the city.

Because of the lack of territorial assignments within cities, the salesmen may often waste a good deal of time within a prospect's office before he finds out that the prospect has already bought from the firm within the past eighteen months.*

There is a large turnover of salesmen. Only about three out of

* Once an account has been sold by the salesman, it becomes his customer for a period of eighteen months from the time of the last sale.

every five hired remain with the company for more than a month, and one out of two for more than a year. However, since little training is given the salesman, and he is paid only after he sells (with no drawing account), the cost of the change to the company is slight in comparison to the increased business that each additional salesman who remains with the firm produces.

El Camino's gross business for 1953 was $20,000,000. The goal for 1954 was set at $25,000,000.

El Camino sells directly to its consumers. These include manufacturers, jobbers, wholesalers, retailers, distributors, brokers, manufacturer's agents, and sales agents.

The major sources of advertising and sales promotion engaged in by the firm are:

1. The products themselves on the desks and walls, and in the pockets of customers.
2. The scores of salesmen that call on every prospect during the course of the year. (As many as five salesmen may call on a prospect or customer during the course of the year.)
3. El Camino customers' recommendation of the company's service to friends and to their own customers.
4. An effective public relations campaign, which keeps El Camino in the spotlight in national magazines, newspapers, and occasionally in the movies.
5. An occasional advertisement in *Business Week*, displaying an automatic pencil, one of El Camino's more than three hundred products.
6. A house calendar, sent out each year to all customers and to some good prospects.
7. Direct mail pieces sent out at various times during the year.

As a result of these various forms of advertising and sales promotion, and the thorough coverage achieved by its salesmen, El Camino has become one of the leaders in the remembrance advertising business.

In order to take the company's products out of straight price competition and to provide an organized and scientific sales force, El Camino developed a basic sales plan. The sales plan lays stress on the advertising idea and only incidentally on the product that will put the idea into action.

The effective use of this plan now has enabled El Camino salesmen to do a more profitable selling job than they had been able to do before the plan was offered.

Suggestions have been received in the home office from various El Camino salesmen throughout the country, requesting that the firm engage in some major form of national advertising in order to make the selling job easier, to increase the firm's share of the potential market, and to raise the prestige of El Camino salesmen who have suffered somewhat from the duplication of calls on customers and prospects.

In general, these suggestions included the following:

1. Continuance of the advertising already used, with the exception of the national advertising campaign to sell the El Camino pencil.
2. The use of appropriate space in several business and trade publications, such as *Business Week, Tide,* and *Advertising and Selling,* consisting of:
   (a) A brief description of the sales plan and how it can help the businessman, large or small.
   (b) A testimonial each week (or month) from some prominent business leader who has used El Camino's ideas.

Some executives in the company felt that, since El Camino has a fixed advertising budget, these advertising costs would have to come from another source. Probably the only source available would be salesmen's commissions. Without doubt, this form of appropriation would prove very unpopular among the salesmen and might lead to a good deal of friction with management. Moreover, the increased sales might not offset the reduced commissions.

The money allotted by the sales promotion department for sales manuals, aids, and brochures, now provided as sales aids, is another possible source of revenue. At present, these materials are sent to the sales force to facilitate a more effective and productive selling job.

QUESTIONS

1. Should El Camino increase its national advertising?
2. If national advertising is increased, should it be done at the expense of salesmen's commissions and sales promotional materials?

3. What do you think of the plan El Camino uses in hiring and compensating its salesmen?
4. Evaluate El Camino's basic sales plan, which places the emphasis on the advertising idea and only incidentally on the product that puts the idea into action.
5. Should El Camino attempt to decrease the turnover of salesmen? Give some of the advantages and disadvantages of the high turnover of salesmen for this company.
6. Should the company adopt an intraterritorial assignment plan for its salesmen?

58 THE M. D. LYTEL CO.

Planning the Sales Organization for a Company

In May, 1953, M. D. Lytel and his sons formed the M. D. Lytel Co. and bought out the Banks Co., a small wholesale distributor of metal giftware. The items that Banks distributed included a line of silver-plated hollow ware, and a line of copper and brass jardinieres, silent butlers, wall pockets, lamps, letter boxes, and other similar items. These products found a ready outlet in gift, flower, department, furniture, and jewelry stores. Some drug, hardware, beauty salons, and paint stores also carried a few of the items.

The territory in which the Banks Company sold consisted of an area within almost a fifty-mile radius of New York City. It included Connecticut, New Jersey, Long Island, and Westchester. This territory was covered personally by the two owners. In 1952, the Banks Co. had gross sales of $50,000 with a gross profit of $10,000.

When the M. D. Lytel Co. bought out the Banks Company, an extensive study was made of competition, potential market, and selling techniques used by the gift trade. The Lytel Company did not check on consumer acceptance of the merchandise because it had been well received for the past three years by such outstanding stores as Lewis and Conger, Goldfarb chain of flower shops, Sloane's, B. Altman's, and numerous other shops of the better type.

Chart I shows a geographical breakdown of the main classifications of stores which the M. D. Lytel Co. believed might handle its products.

CHART I

LYTEL'S POTENTIAL OUTLETS

	Florists	*Gift*	*Furniture*	*Dept.*	*Jewelry*
Middle Atlantic	8444	1028	5822	4420	6249
Middle Western	6834	716	5821	3594	4949
Western	3593	287	5941	2605	3702
Pacific Coast	3918	598	2711	1434	2828
Southern	4962	408	9189	8163	4392
New England	3898	478	1843	2025	2047
Total	31,649	3515	31,227	22,241	24,167

Total all types—112,799

There are three competitors that handle the same lines. Two are located in New York and one in Chicago. The two in New York operate on a national scale, and the one in Chicago operates locally. One of the national organizations is large, whereas the other is of medium size. The Chicago company is relatively small. All three companies carry lines other than those sold by the M. D. Lytel Co. They are, however, the only organizations that handle the lines carried by the M. D. Lytel Co. because the factories which produce these lines follow the practice of selective distribution.

The following information was available on how sales were obtained by other companies in the gift field:

1. Large national organizations, comprising about 10 per cent of the field:
   (a) From showroom, manned by two to four salesmen.
   (b) By full-time salesmen on the road—usually five to ten men.
   (c) By commission salesmen on the road and in their own local showrooms—usually ten to twenty men.
   (d) Through consistent advertising in national trade publications.
   (e) Through extensive direct mail advertising.
   (f) Through exhibitions at shows throughout the United States.
2. Medium-large national companies, comprising about 25 per cent of the field:
   (a) From showroom, manned by one to two salesmen.
   (b) By full-time road salesmen—usually three to four men.
   (c) By commission salesmen—usually eight to twelve men.
   (d) Through consistent advertising in national trade publications.

(e) Through direct mail, during buying seasons only.
(f) Through exhibitions at local shows—and by sharing space at out-of-town shows.

3. Medium national companies—about 50 per cent of the field:
   (a) From showroom—secretary pinch-hits as saleswoman.
   (b) By full-time road salesmen—one or two men.
   (c) By commission salesmen—one to five men.
   (d) Through spotty advertising in national trade publications.
   (e) Through direct mail—spotty.
   (f) Through exhibitions at local shows—shared space only.
4. Small local companies—about 15 per cent of the field:
   (a) By road salesmen—usually the owner.
   (b) Through spotty direct mail efforts.

The M. D. Lytel Co. does not have showroom space in New York's Gift Building, 225 Fifth Avenue. Although space is available in other buildings, it is not too desirable. There is a possibility that another representative, now occupying space in the Gift Building, would show the M. D. Lytel's Co.'s line. Lytel is well financed and is in a position to establish itself on a national basis if desirable.

QUESTIONS

1. What type of sales organization should the M. D. Lytel Co. set up?
2. Should Lytel attempt to put its operations on a national or sectional basis or continue on a local basis? Why?
3. What procedures would you recommend that Lytel follow at this time?
4. What advertising program should Lytel use?
5. How should the salesmen be compensated for selling items of this kind?

59 NORWICH PUBLICATIONS

Developing an Adequate Sales Organization

In 1940, Norwich Publications purchased a trade paper. Largely through the efforts of the two co-owners, and with very little additional sales or office help, the business expanded, and advertising

volume became large enough to return a satisfactory profit. In 1948, the company had reached a position in which, on the basis of an average monthly issue of forty-seven pages of advertising and 50 per cent editorial matter, it was returning a net profit of $10,190.

Although a large part of the advertising was steady and secure, strong competition from two other trade papers in the same field, with similar coverage and circulation, made continuous intensive selling effort by Norwich necessary to maintain the position of its publication "A." Fifty per cent of the advertising prospects were located in the northeastern section of the United States, 40 per cent in the Midwest, and 10 per cent in the western states. Sales were made by three salesmen working from the home office in New York. All traveled extensively, dividing the metropolitan area, the first two alternating trips to the same prospects in the Midwest and the third covering large cities in the East exclusively. Additional sales were made when prospects were solicited at national and local conventions, and a few by correspondence. Very little advertising or printed promotional material was used.

There was no definite assignment of accounts or responsibility for them. The two leading salesmen had interests in the corporation, and no conflicts arose. The third salesman covered his territory exclusively and was permitted to use his own discretion about the frequency of trips and the calls to be made. In the New York metropolitan area, calls were distributed among salesmen at the discretion of the publisher. Frequency of calls was left to the judgment of individual salesmen.

Prospect records were kept on index cards on which were listed the company name and address, product, names of officers, date, results of calls made, and any other information considered noteworthy. These cards were arranged geographically and were referred to when sales trips were planned.

It was the policy of the company to pay all salesmen straight salary without commissions. The publisher believed that this method of compensation resulted in a better, long-range type of sales effort, minimized high-pressure tactics, and encouraged cooperation among the salesmen. Increases in salary would serve as the reward for increases in business volume.

The publisher's confidence in the ability of a small sales force, working from one office, to cooperate fully was reflected also in the

handling of traveling expenses. No limitations or rules were set to govern such expenses; all of which were paid by Norwich; the management considered that this method had worked out very satisfactorily.

Through 1950, advertising volume continued to increase steadily, but profits decreased slightly. The management attributed this to increasing costs of printing, paper, and binding. It would have liked to increase rates, but could not because it followed a policy of maintaining a rate schedule similar to that of the leading paper in the field. Norwich felt that advertisers would not appreciate the reason for a rate increase if its competition held the old rates. For many years Norwich and another of its competitors had immediately followed with a smaller change any change in rates by the leading publication.

In January, 1951, the management decided to expand the activities of Norwich Publications. It felt there was an excellent opportunity to start a new publication in a field related to its original paper. This new field, in which there was at that time only one trade paper, offered promise of rapid expansion. Leading executives in the industry held high hopes for its future development. Norwich also felt that, since the fields were related, the company's contacts with advertisers, through Publication "A," would provide enough business for a good start on the new paper. When Publication "B" came out, these contacts did, in fact, prove to be of great help in selling advertising for the new paper.

To expand its sales activity, Norwich decided to replace one salesman, whose work was unsatisfactory, and add another. All salesmen were to continue to work on the same basis as before, except that all were to cover the Midwest jointly; the eastern area was to be divided between the two new men, and accounts in the New York metropolitan area assigned among all four. The two leading salesmen planned to decrease their traveling and give more time to the training of the new men. No commissions were planned. An analysis of the salesmen's salaries and traveling expenses are given in Schedule I.

The management decided to have all salesmen sell space for both publications. Norwich felt this would avoid duplication of traveling expenses and enable salesmen who became friendly with prospects to sell both papers under the combination rate offered and to take

maximum advantage of the relationship between the fields covered by Publication "A" and Publication "B."

Within four months, Norwich met unexpected competition from two other publications that followed it into the new field. It maintained its position as second in the field on advertising volume, still well behind the original publication in the new field, but its expansion was delayed greatly by this added problem.

In an effort to expand its coverage of prospects further, two West Coast representatives were hired on a straight 20 per cent commission basis to sell space for Publication "B" only. The publisher did this reluctantly, feeling that such representatives merely contacted easy prospects who would probably advertise anyway, but he hoped to obtain at least some coverage by this method.

In July, 1951, a salesman was hired on a straight salary basis to work from a midwestern office. This new man was to handle both publications, covering 75 per cent of what had formerly been the midwestern territory. Home office salesmen were to continue to cover the other 25 per cent.

An increased volume of printed promotional material was used, mostly for Publication "B."

Publishing costs continued to rise at an even greater rate. At the end of 1952, the volume of advertising in Publication "A" had increased to an average of 57 pages per month. Editorial material still comprised 50 per cent of the publication. Advertising rates in Publication "A" had increased 20 per cent.

Publication "B," meanwhile, had been developing slowly. Its advertising rates, which were also dictated by the leading paper in the field, remained the same. Advertising volume, in an average monthly issue increased from 15 pages in 1951 to 21 pages in 1952, with 60 per cent of editorial material in both years.

In spite of the increase in advertising volume and rates, profits from Publication "A" decreased severely. (See Schedule II.) Publication "B" was still operating at a small loss, even without bearing its full share of overhead costs. (See Schedule III.) Because of this situation, it was becoming increasingly difficult for Norwich to allow the profits from Publication "A" to carry the cost of developing Publication "B."

The management felt that its expanded sales force was not producing the volume it should, but was not sure where the faults lay.

The two top salesmen had not been able to decrease their activity as planned. Though the management was confident of the potentialities of Publication "B," it felt it was losing business on the established paper by spreading the sales effort.

The publisher had little confidence in salesmen who did not work from the home office. He felt that they lost contact with new developments and methods and tended to be negligent. He suggested that the midwestern salesman be eliminated, and that territory be covered from the home office as previously.

SCHEDULE I

SALESMEN'S SALARIES, TRAVELING EXPENSES AND NET SALES BY PUBLICATIONS

(1950-1952)

Salesman	*Salary*	*Traveling Expenses*	*Total Expense*	*Sales Publication A*	*Sales Publication B*	*Total Sales*
1950						
Gray	$ 6,000	$ 2,430	$ 8,430	$ 33,170	..	$ 33,170
Fulton ...	6,000	3,160	9,160	39,610	..	39,610
Thomas ..	3,000	2,050	5,050	9,490	..	9,490
Total ..	$15,000	$7,640	$22,640	$82,270	..	$82,270
1951						
Gray	6,500	1,390	7,890	30,420	6,850	37,270
Fulton ...	6,500	3,630	10,130	35,370	8,780	44,150
Smith	2,800	3,200	6,000	10,220	4,300	14,520
Taunton ..	2,800	2,810	5,610	9,590	3,010	12,600
Harris* ...	2,200	3,400	5,600	3,730	1,100	4,830
Jones† ...	770	..	770	..	3,870	3,870
Charles‡ ..	230	..	230	..	1,190	1,190
Total ..	$21,800	$14,430	$36,230	$89,330	$29,100	$118,430
1952						
Gray	6,500	2,020	8,520	27,380	7,990	35,370
Fulton ...	6,500	3,120	9,620	32,020	9,810	41,830
Smith	3,500	3,350	6,850	17,710	6,410	24,120
Taunton ..	3,500	2,690	6,190	15,460	4,970	20,430
Harris	4,500	5,370	9,870	11,790	2,220	14,010
Jones	1,070	..	1,070	..	5,380	5,380
Charles ..	170		170	..	850	850
Total ..	$25,740	$16,550	$42,290	$104,360	$37,630	$141,990

* Midwest; 6 months only in 1951.
† West Coast; 10 months only in 1951.
‡ West Coast; 8 months only in 1951.

SCHEDULE II

Publication A

Yearly Profit Analysis
(1948-1952)

	1948	1949	1950	1951	1952
Net Sales	$77,240	$80,130	$82,270	$89,330	$104,360
Expenses	67,050	70,940	74,010	86,110	102,020
Profit	$10,190	$ 9,190	$ 8,260	$ 3,220	$ 2,340
Expenses					
Operating	$28,520	$30,570	$32,150	$38,400	$ 48,950
Selling	25,610	26,280	27,010	31,620	35,570
Administrative	12,920	14,090	14,850	16,090	17,500

SCHEDULE III

Publication B

Yearly Profit Analysis
(1951-1952)

	1951	1952	
Net Sales	$29,100	$37,930	
Expenses	30,900	38,950	
	$ 1,800	$ 1,020	(Deficit)
Expenses			
Operating	$14,050	$18,390	
Selling	12,980	16,230	
Administrative	3,870*	4,330*	

* Includes only administrative expenses directly attributable to Publication "B."

QUESTIONS

1. Should the sales force be reorganized?
2. How can development of the new publication be accomplished?
3. Should Norwich sell Publication "B" at a small profit and concentrate on the established publication?
4. Did Norwich follow a good policy in the payment of its salesmen?
5. How important is it for the salesmen to work only from the home office?
6. Recognizing that Norwich must sell advertising on a national basis, what plan of selling would you advise?

60 THE SULLIVAN ENGINEERING COMPANY

Selling an Intangible

Although the Sullivan Engineering Company was engaged in some token manufacturing operations required to develop and test its products and those of its licensees, the company's primary operation was to sell to other manufacturers licenses under the patents that it held. Although patents pertaining to several aspects of diesel operation were held, the major system of the Sullivan Company was known as the "Sullivan Combustion System." In March, 1953, the company had some twenty-one patents, the most important of which had seven years to run. In addition, the company held exclusive rights in the United States to ten internationally known United States combustion patents.

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

Although deficits attributable to development costs and similar activity resulted from ventures into new fields, substantial working capital had been accumulated, and the company made a profit every year from 1941 to 1952. In 1952, the company experienced its first loss in eleven years. It was the opinion of management that this loss reflected the difficulties of some special readjustment of its licensees, not a change in the favorable trend shown over the past eleven years. Since results for the first quarter of 1953 were more favorable, company executives believed that the peak of their difficulties had passed. Further ground for optimism was found in the rapid expansion of diesel power applications in railway locomotives, highway, bus, and trucking fields, and for marine propulsion. The efforts of aeronautical engineers to use diesel power in aircraft and an increasing trend in the petroleum industry to use diesel power for pumping were expected to bring about promising new uses.

Management realized that much remained to be done, but these facts seemed to offer reasonable assurance that continued research and development would be rewarded by consistently profitable operation. Only in 1940 had operating income fallen seriously below oper-

ating expenses. Although a small operating deficit had appeared in 1941, the comparative results of those years indicated a vigorous response to improved conditions in general business. When a deficit had again appeared in 1952, company executives pointed out that this was "low on the income statement," that is, that amortization of patents, provision for which had never before been provided, put a heavy amortization burden on the remaining life of the patents. This, rather than operating losses, had been the cause of the deficit.

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

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

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

chased only by accomplished technicians on the basis of critical engineering evaluation.

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

EXHIBIT I

Extract of License Agreement

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

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

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

assigned to, or placed at the disposal of, Sullivan Engineering Company, the contractual obligations will be limited to such agreement as the third party will permit.

Sullivan Engineering Company shall, during the life of this agreement, communicate to the licensee any improvement, patentable or unpatentable, it may make, or to the benefit of which it may become entitled, or any further invention pertinent to the Sullivan Engineering Combustion System it may discover and own or control, provided in Sullivan Engineering Company's decision any such improvement or invention has been proven and Sullivan Engineering Company considers it of practical value. In the event of Sullivan Engineering Company's decision that an improvement has no practical value, Sullivan Engineering Company will refrain from advising any and all licensees of the nature of the discarded improvement. Sullivan Engineering Company shall, as soon as practicable, fully disclose to the licensee the nature and manner of using any approved improvement and will permit the licensee to make use of the same during the existence of this license without payment of any additional royalty, premium, or compensation therefor, provided the licensee shall notify Sullivan Engineering Company in writing within 120 days of the receipt of this information of its acceptance of the inclusion of such inventions or improvements in this agreement. If any such invention or improvement is assigned to, or placed at the disposal of, Sullivan Engineering Company by a third party, this clause shall apply only insofar as Sullivan Engineering Company's contractual obligations to such third party will permit.

QUESTIONS

1. How should Sullivan Engineering Company market the patents that it develops?
2. Is it a sound policy for the company to concentrate its efforts on present licensees?
3. What is your opinion of the License Agreement? Does it protect Sullivan Engineering Company adequately? Should there be any changes made in this agreement?
4. How would one determine the future potential of diesel power?
5. Why do you believe the company failed to make provision for the amortization of patents prior to 1952?

61 CALIFORNIA PRUNE AND APRICOT GROWERS ASSOCIATION

Increasing the Demand for Prunes

From 1942 to 1951, the per capita consumption of prunes decreased from 1.9 pounds to .8 pounds. As a result, a marketing research firm recommended to the California Prune and Apricot Growers Association, which packages prunes under the brand name, "Sunsweet," that it apportion part of its advertising budget for the expressed purpose of increasing the general demand for prunes.

The recommendation to advertise prunes was highlighted by the success of other associations in advertising their products. A few examples considered were the following:

National Turkey Federation, in 1949, embarked on a program to stimulate year-round serving of turkey in restaurants and hotels. Through the right kind of aggressive promotion, it has succeeded in getting restaurants to offer turkey on menus every day in the year.

Cling Peach Advisory Board has done an outstanding job of dramatizing special salads and desserts to be made with peaches.

Idaho Advertising Commission, through several years' promotion of Idaho potatoes, has lifted this vegetable from a dull, every-day food to a specialty item pushed and promoted by thousands of restaurants. In Chicago, for example, Toffenetti's chain of restaurants has a constant special of ham and Idaho potatoes.

Florida Citrus Commission, in helping restaurants build breakfasts around Florida Orange Juice, developed a campaign that has paid dividends. California Fruit Growers Exchange is now urging restaurateurs to serve fresh, canned, or concentrated California Orange Juice.

National Red Cherry Institute has for years secured the cooperation of restaurants in its cherry pie promotion by calling readers' attention to the campaign and by supplying them with helpful promotional material.

The American Dairy Association, Pan-American Coffee Bureau, The Tea Council, International Association of Ice Cream Manufacturers, the Washington State Fruit Commission, and other similar organizations all have embarked on similar campaigns.

As the research agency pointed out to the association, "with basic food commodities like prunes, a continuous educational stimulus is needed to promote an increase in per capita consumption. Once the

results of the educational work have taken root with housewives, the medical profession, the home economists of the nation, and the processing industries, such as the commercial bakers and confectionery manufacturers, the private brands of prunes will begin to profit. Until the educational work is done, it is not economical to advertise only brand names."

Among the important ideas expressed in the study the research agency made were the following:

"Prunes are a fruit all of us have grown up with but, unfortunately for some, with the idea they were good for us but not just good to eat. Actually, I think they are delicious but, there are people who haven't yet found this out. It seems important to me that prunes be sold to the homemaker on their own flavor merit."

"I find myself asking why the bulk of people who use prunes serve them stewed. Is it because it's the easiest way to prepare them or because of the nutritional factor or just what. The very fact that most people enjoy stewed prunes would indicate, I think, that you can't afford to ignore these rather overwhelming statistics in any plan."

"Personally, I don't think many people really understand nutrition or really care what foods they eat but, at the same time, I think more people are becoming aware of the importance of good nutrition."

"It seems to me that more recipes could be developed for using prunes in breads and muffins and cakes; also, for sandwich fillings to go in school lunch boxes. Blood donors need iron-rich diets, and this angle might be developed."

"I think there is a slight onus to the word 'prune.' 'Prune' is a word synonymous with derision. We note some of the advertisers describe prunes as 'plum prunes.' A plum, conversely, is synonymous with a rich find, that is, the nursery rhyme plum. How about dried plums?"

"The average restaurant, hotel, or other public eating place does not use prunes consistently and profitably in menu-building. The fundamental problem is to arouse the interest of the nation's restaurateurs in the benefits and profit potentials of serving prunes. No doubt, if hotels and other eating places featured prunes, consumer use of the products would be affected favorably."

"Prunes should be used more often in salads. The deliciousness of prunes as a food, should be emphasized by having available the best combinations of prunes in recipe form."

"If the price of prunes can be held to not more than 20¢ per pound then volume can be maintained. When we raised the price of a one-pound package of prunes from 19¢ to 25¢, sales dropped off 80 per cent."

"Our volume on prunes goes up perceptibly when prices are lower compared to other foods, particularly canned fruit."

"Dried prune sales have fallen off during the past few years, and it seems to us they are gradually being eliminated from the diet of most consumers. We think that pliofilm has helped the sale slightly, but a great deal of advertising and missionary work must be done if the prune growers want to hold what little market they have left."

"I would recommend very strongly that you work closely with distributors who control their own retail outlets. With proper cooperation and sharing of promotional expenses, they can do a good job for you. Half of the sales on prunes comes from *impulse buying.*"

The above comments summarize the problems confronting the association. The association was aware that, because advertising was not a cure-all, spending twice as much money for that purpose would not alone guarantee results.

The marketing research agency faced very realistically the problem of increasing the per capita consumption of prunes and called its philosophy to the attention of the California Prune and Apricot Growers Association.

"Advertising can only capitalize on—not create—a desire. Advertising that sold orange juice to mothers derived its inherent power from the desire mothers have to feed their children well. That desire was there long before advertising or orange juice existed. The advertising told mothers about a new and better way to feed their children—a useful educational function—but it did not create the desire to do so.

"Since frozen orange juice was perfected and gained national distribution, consumption of oranges has increased rapidly. The sales gain last year was reported as 20 per cent.

"Essentially, there are two factors responsible for the success of an advertising program—the weight of the advertising and the message itself. That is why the emphasis in advertising today has to swing toward the advertising message—the creation of selling themes that can actually change people's minds.

"We cannot create the desire, but we believe that an educational program will result in the housewife purchasing prunes instead of some other competing food product."

General Plan Recommended

1. Have at least one or perhaps two great sales drives during the year tied up with incentive plans for getting support of supermarkets and chain stores.

2. Enlist the support of the entertainment industry in Hollywood in staging a big night television show as the key feature of the drives. Recruit prominent actors to help push one of the state's most important agricultural products.

3. Tie into all advertising, promotion, and publicity a new recipe booklet on prunes, sponsored by a well-known radio or television personality.

4. Plan a dynamic Prize Prune Display Contest for unusual mass displays ("Guess how many prunes there are in this exhibit"); tie-up displays with manufacturers of related items—cottage cheese, dessert mixes like Jello, the Meat Institute, and cereal manufacturers.

5. Engage three or four experienced food promotion men to work as missionary salesmen in the field. They will contact supermarkets, chains, and cooperative store groups such as Red and White, Buy-Rite, United Grocers, A.G.A., and many others.

6. Run a campaign in hotels, restaurants, cafeterias, and lunchrooms in which special recipes will be developed.

7. Include in the advertising schedule such consumer media as television, radio, newspapers, billboards, and weekly magazines (*Life, Saturday Evening Post, Colliers,* and *American Weekly,* women magazines, and farm publications).

8. Plan tie-in with supermarket institute, chain store, and other grocery conventions and effective displays and promotions to bring the prune campaign to the attention of every food store buyer and merchandiser. Place advertising in the national and regional grocery publications.

QUESTIONS

1. Is the plan of the marketing research agency for advertising "prunes" instead of the association's own brand, "Sunsweet," a sound one?
2. Would not growers of prunes in Oregon and other states benefit equally from this general advertising?

3. When an industry is faced with a declining per capita trend, what results would you expect from a campaign of this type?
4. Do you agree with the marketing agency that advertising cannot create a desire for a product?
5. Do you believe the plan the agency recommended is a satisfactory one? Are there any changes you would recommend?
6. When the demand of consumers has shifted to new products, would a campaign of this nature increase the volume of business sufficiently to make it economically sound?
7. How important is "price" to the consumer in choosing between products like prunes, peaches, apricots, oranges, and apples?

62 THE A. W. MURPHY COMPANY

Compensating Automobile Salesmen

A. W. Murphy Company was the exclusive distributor of the Weiland Motor Car Company's products in Manhattan and in six adjoining counties in lower New York State. The Murphy organization controlled the retail distribution on the island of Manhattan and assigned thirty-three contract dealers to handle sales in the adjoining counties. The Murphy organization took 40 per cent of their assigned quota for retail sales in Manhattan and assigned the remainder to the contract dealers.

The New York retail showroom, with a sales manager and a sales force of six men, was controlled by Mr. Murphy. In 1951, the Weiland Company produced a utility vehicle that could be used as a combination passenger car, light truck, mobile power unit, and tractor. In 1952 A. W. Murphy's sales volume was $500,000. Approximately 85 per cent of the profit came from the company's own retail sales, and the remainder from sales to contract dealers.

In the fall of 1953, the demand for Weiland cars decreased. The Weiland Company realized it was bad policy to sell the utility vehicle as a passenger car. They advised all distributors to stress other features of the utility car, such as the four-wheel drive, its use as a combination tractor and light truck, and its accessory equipment, including snow plow, winch, generator, welder, hydraulic lift, rotary broom, and post hole digger.

Murphy's salesmen were paid a salary plus a $20 commission on every car they sold. In 1953, with growing sales resistance and the resulting importance of the salesman, this commission was increased from $20 per car to 2 per cent of the total sale. However, the salesmen were dissatisfied because they had to sell not only a utility car but also a variety of accessory equipment. Because they did not have a wide knowledge of farm and mechanical equipment, an equipment manager was hired to help the salesmen with these problems.

The dealers, who had limited facilities, often sent their customers to the distributor's showroom for demonstration of equipment, and, if the salesman sold the dealer's customer, he was paid a 5 per cent commission on the sale by the dealer. As a result of the differential in commissions, the salesmen tended to neglect their own customers in favor of the dealer's.

The sales manager felt that salaries should be discontinued and that a straight 5 per cent commission should be paid to the salesmen in the New York showroom. The manager pointed out that, under this system, there would be an equal incentive for the salesman to sell his own customers. "It has always been the policy in the past to pay salesmen straight commissions in the automobile business," he stated, "and under this plan several new salesmen could be taken on without any additional expense."

Mr. Murphy opposed the plan. He pointed out that the salesman who sold the most automobiles was not always the "best" salesman. Such a salesman often stressed features that did not actually exist in the automobile in order to make a sale. As a result, the customer was dissatisfied and in the long run the Murphy Company would lose. A salesman working on a commission basis is pressed by the necessity of making new sales, and may neglect the old customers who are the backbone of an automobile company.

Mr. Murphy then consulted the factory representative to get his ideas concerning a satisfactory compensation plan. The factory sales manager believed that a straight salary and no commission should be paid to the salesmen selling the Weiland line. The factory manager pointed out that, because the Weiland line was an innovation in the automobile field, it required the best salesmen available. He believed a definite sales policy was required to increase the sales of this vehicle.

The Weiland Company was preparing to manufacture an all-purpose plastic body sport car. The factory manager believed that

salesmen would neglect the utility vehicle and follow the line of least resistance by pushing the sales of the sport car.

The Weiland Company hoped to increase the sales of the utility vehicle in the future and wanted to assign the Murphy Company a larger quota in 1954.

QUESTIONS

1. What plan of compensation should be adopted by the A. W. Murphy Company—straight salary, salary plus commission, or straight commission?
2. Do you agree with Mr. Murphy that a commission basis of payment would result in a high-pressure type of selling?
3. Why did the Weiland factory manager recommend a straight salary and no commission?
4. How might the plan of paying a 5 per cent commission on sales made to dealer's customers be changed and the salesmen's co-operation still be maintained?

63 THE FREDERICKTON COMPANY

Analyzing the Effects of Losing Customers

The Frederickton Company was originally organized to supply essential oils to retail pharmacists. These oils were used primarily in medicinal prescriptions and were distributed to pharmacists through wholesale drug houses.

In the early development of the soft drink, cosmetic, and patent medicine industries, many firms had their inceptions in the back rooms of drug stores. As they grew, they discontinued their drug store operations but continued to order the raw materials from such companies as Frederickton, by-passing the wholesale drug houses.

The Frederickton Company also sold supplies to the cosmetic industry. The company employed a staff of perfumers and compounded its own perfumes, which were sold only in bulk to various cosmetic manufacturers. This practice became uniform throughout the industry, and it is now acceptable for a company to call on a cosmetic house and offer both raw materials and complete bases.

A marketing problem has arisen in the flavor department of the

Frederickton Company. Essential oils and aromatic chemicals are used as flavoring agents in confectionery products, condiments, soft drinks, ice cream, and all other products which are dependent on an outside agent for flavoring purposes. During the development of the food industry in this country, the Frederickton Company supplied the large, nationally advertised soft drink manufacturers with these products. However, it has been unable to solicit business of new and growing soft drink companies because the flavoring extract manufacturers have specialized in this market. These manufacturers have become good customers of the Frederickton Company and will not tolerate the Frederickton Company's calling on their trade. This same situation exists in the bakery, ice cream, confectionery, and seasoning fields.

In order to service their many customers for the essential oils and aromatic chemicals, the Frederickton Company found it necessary to employ a flavoring chemist. It was his duty to advise the company's customers and give whatever technical assistance they desired. During the course of years, he developed a complete line of flavors using the raw materials manufactured by the Frederickton Company. In many cases, these flavors were developed as a direct result of solving technical problems for the Frederickton customers. Over a period of about fifteen years, the Frederickton Company built up this complete line of flavors and began listing them in its catalog.

The Frederickton Company is now in a position where its flavor department does about 8 per cent of total gross volume, but is responsible for about 35 per cent of total gross profit. The cost of handling the essential oils and aromatic chemicals is extremely high, and the fact that the selling prices are based on world commodity prices of natural spices makes the market for these products a vulnerable one. The flavors are a specialty item with a high markup, which allows for considerable latitude for the fluctuation in prices of raw materials. Also, once a flavor has been adopted by a customer, there is little likelihood that he will shift to the competitor's flavor as long as the quality and service of the merchandise of the Frederickton Company are maintained. This is not the case with the essential oils and aromatic chemicals.

The general manager of the Frederickton Company has urged that a policy be adopted to concentrate its sales effort on the line of flavors, regardless of the loss of business which might result with the

flavoring extract manufacturers. His argument is the obvious one—that the flavor business is a high-profit field without the same risks involved when dealing with raw materials, and that the reputation of the Frederickton Company, along with its technical skill, will enable it to obtain a large part of the market.

The controller is opposed to this change and feels that it is difficult to combine into one organization a management that is buying in the world markets, producing raw materials in its own factory, and then using these raw materials for the production of flavors that will have to be sold in a competitive market. He doubts that the flavoring business can be built up in sufficient volume to use the total production facilities of the chemicals, and is afraid that the company will lose the business of the flavoring extract and seasoning manufacturers. Even though the flavors can be sold at a higher profit, it would work to a disadvantage if large flavor consumers should suddenly drop a flavor or should meet with financial difficulties. On the other hand, the buyers of the essential oils and aromatic chemicals will always buy from the Frederickton Company because of the nature of the products.

The general manager pointed out that the essential oil and aromatic business had become less and less profitable over a period of years, and that many of the large buyers of essential oils were turning to finished flavors because they required less work in purchasing and handling. The flavors in physical volume are often less than one per cent of the total product manufactured. Since the management of food companies had found it necessary to give more time to the merchandising of their own products, they wished to buy at an established price a complete flavor that would be always consistent.

The Frederickton research staff had been working on aromatic chemicals and essential oil developments; it could be given flavor problems to solve that would put the company ahead of most of the flavoring extract manufacturers, who were not equipped to do research. The general manager emphasized that a transition had been made in the cosmetic industry, where salesmen were calling on the cosmetic trade to sell perfume bases, which are the counterpart of flavors, yet were offering raw materials at the same time. The same situation could be developed in the flavor industry so that the flavoring extract manufacturers would have to enter into the manufacturing phase of essential oils or go out of business. In either case, he

contended that the Frederickton Company would have the advantage.

The controller pointed out that there were approximately 3,000 large food manufacturers and several thousand small bakers, confectionery manufacturers, bottlers, and ice cream manufacturers. It would be impossible to expand the existing Frederickton sales force to a size sufficient to service this large market in a short period of time. Further, if the sales force was expanded slowly, there would be a loss of business between the time the flavoring manufacturers stopped buying and the time the sales force was able to handle the accounts.

QUESTIONS

1. Should the Frederickton Company attempt to sell the entire consuming market or limit itself to the large users of oils and chemicals?
2. Should the company adopt a compromise plan and sell flavor to a selected group of consumers, leaving the smaller users to the extract manufacture?
3. If the company decided to sell all consumers, could you recommend any method by which it would be possible to maintain both outlets?
4. If the world price on raw materials dropped, how much of an effect would you expect on the prices of flavoring? Within what period of time would the effect be felt?
5. Should the company specialize in the high-margin flavor item, or should it continue to expand the other phases of the business?

64 COMET MACHINERY CORPORATION

Evaluating the Sales of Industrial Products

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

Manufacturing and production facilities are located in a well-

equipped modern plant about fifty miles from New York City. Complete equipment required for the production of the Aries line of wood-working machinery, the rebuilding or repair of used machinery, and the design and production of custom design equipment is available in this plant.

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

Manufacturing Operations

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

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

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

A wide range of machines, designed to accommodate unusual

problems and production requirements, is produced by the company. The machines are typical of those designed by competent professional engineers, and are used by a variety of industries for such operations as paper processing, metal working, panel bending, and cigar box manufacturing. Machines have been designed not only for local customers but also for those abroad.

Sales and Distribution

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

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

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

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

Custom design machinery is priced after making a careful survey of the customer's requirements and a thorough analysis of the economic value of the machine to him. Manufacturing costs, including the designer's fee, supervision, overhead, raw materials, accessories, and labor, are estimated. In order to cover unforeseen difficulties in manufacture and changes in design required during the process of

manufacture, a markup of 100 per cent is added as a safety factor. Finally, after analyses of requirements and value to the customer have been made, particularly in consideration of the savings accruing to the customer as a result of increased production or reduced unit cost, the final price is determined and agreed upon between the customer and the company. Normally, the objective is to derive a gross profit of from 33⅓ per cent to 50 per cent for this type of work. This phase of the company's operations has proved the most profitable.

Sales Volume and Operating Costs

Gross sales for the five-year period 1949-1953 fluctuated between $100,000 and $200,000, depending upon the volume of orders. Overhead costs ranged from 14.9 per cent to 15.6 per cent of total net sales. The ratio of equipment returns to gross sales was extremely low; in fact, equipment returns were not sufficient to assist materially as a source for used machinery. Total payroll costs currently amount to about 18 per cent of net sales, costs being allocated according to type of equipment sold—the Aries line, custom design, or rebuilt used machinery. Production volume can be increased approximately 50 per cent without any increase in overhead costs, without increasing plant facilities, and with only a proportionate increase in labor costs.

Reasons for Success of the Company

1. A substantial reputation for originality and dependability of design and manufacture.

2. A succession of satisfied customers who have recommended the regular line, custom designed, and rebuilt machinery to others.

3. Lower manufacturing costs per unit for the Aries line, obtained through more ingenious and economical manufacturing methods.

4. The excellent reputation of and demand for the three lines sold on franchise.

5. The location of the New York sales office in the machinery shopping area. Characteristic of the machinery trade, customers "shop" when interested in the purchase of new equipment. Consequently, a substantial volume of business has been obtained from these customers-at-the-door.

The company realizes that the period of "high-sales-low-sales" effort, which has existed for several years, may soon subside and that competition, particularly in the low-cost machinery field, will return to a normal state. Sales for the Aries line may, therefore, decrease, but it is desirable to maintain production at a high enough level to carry the plant over those periods in which custom products and rebuilts are relatively inactive. In order to expand the number of products sold on franchise for other manufacturers, the display and sales areas will require remodeling and additional space.

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

QUESTIONS

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

65 "RANE-DARE" RAINCOAT COMPANY

Developing a Sales Plan

The "Rane-Dare" Raincoat Company was organized in 1942 to manufacture ladies' satin twill raincoats. All during World War II, the company was able to get desirable piece goods, and the sales continued to show an increase each year until 1949. The coats were sold to department stores, chains, and specialty shops at $9.89 and were retailed at $16. Although the Rane-Dare Company did not consider itself a style house, it did manufacture a garment that was considered one of the leaders in its price range. Rane-Dare employed three salesmen who covered the eastern market. No attempt had been made to develop the other sections of the country.

Sales in 1949 were about 6 per cent below those of 1948, and there were some very definite signs that the year 1950 would not be as successful as 1949 had been. The fabric situation had changed. Competitors were beginning to use new fabrics, buyers were not committing themselves for future orders, and many competitors started to cut prices in order to decrease inventories. As a result, the start of the year 1950 found the industry in an uncertain condition.

The problem the Rane-Dare Company faced was a very real one. Should it fall in line with competition and lower its prices by manufacturing a cheaper garment, or should the company strive to put out an even better garment at the same price? Upon the examination of the cost of the raw materials, it was found that both the price of piece goods and labor had increased about 5 per cent. The margin of profit (15 per cent) as allowed by the O.P.A. during the war had *not* been raised by Rane-Dare. Upon examination of the overhead, it was found that the company was operating with a minimum amount of help for the volume of business that it transacted.

The executives decided that Rane-Dare should maintain present price lines and offer a greater variety of styles. (During the years 1942-1949, the line consisted of only two numbers.) However, because this solution did not provide for the means to establish the company as a leading manufacturer in the popular-price raincoat field, it would solve only the immediate problem.

After a series of meetings, the executives developed the following plan:

1. Instead of relying upon one fabric source, a diversified line of fabrics would be purchased and offered to the trade.

2. A designer would be employed to create new styles.

3. Out-of-town representatives would be employed on a straight commission basis to sell the products of Rane-Dare on a national scale.

4. A definite sales program would be established for the city men. The city sales manager would call on large chains, such as J. C. Penney, Montgomery Ward, and Sears Roebuck and on large buying offices, such as Macy Associates, Allied Stores, and A.M.C. A second salesman would cover all city department stores. A third salesman would call on the smaller buying offices in the eastern market.

5. Development of export trade was considered very desirable, and necessary steps and inquiries were to be taken along this line. This program would entail direct mail to overseas sources for sales to retailers and jobbers. Foreign agents would be appointed to act as representatives in those countries where there was a demand for ladies' raincoats.

6. An advertising campaign was planned. This program was divided into two phases: Initial concentration would be placed on the trade, and would be followed by cooperative consumer advertising; promotional aids such as mats, counter card blowups, and "as seen in *Glamor*" tags were to be offered to the trade.

7. In addition to manufacturing ladies' raincoats, a children's line would be added and promoted on a "back-to-school" basis.

QUESTIONS

1. Should the plan outlined above be adopted?
2. What other plans or ideas might have been suggested?
3. Do you think Rane-Dare should add a children's line? Would the know-how developed from styling ladies' raincoats be helpful in creating a children's line?
4. Would it be more economical for Rane-Dare to continue to specialize in only two numbers instead of extending the line?

CHAPTER ELEVEN

Integration of Methods of Sales Promotion

Unless brand preference has been built for a product facing a competitive market, that product will sell almost entirely on the basis of price—usually a price pushed to, or nearly to, the manufacturer's cost. In Europe, there has been a tendency for cartelization which allocated markets to each competitor, so that competition would not push price down below the profit level. In the United States, we have maintained profits by aggressive brand promotion. As a result, we have developed a bewildering variety of sales promotional tools, ranging from counter cards to sky-writing.

Sales Promotional Tools

A partial list of the sales promotional tools commonly in use would include: magazine advertising, newspaper advertising, radio advertising, television advertising, direct mail, publicity, outdoor advertising, car cards, point-of-purchase promotional material, display, store demonstration, consumer sampling, the use of coupons, package design, deals such as two-for-the-price-of-one, one cent sales, premiums, missionary selling, advertising

allowances, and trade journal advertising. Few of these methods of sales promotion are identical in function, yet most of them overlap. It is necessary to work out some sort of integration between them so that the maximum influence is exerted toward making sales.

Selection Factors

The nature of the demand a product satisfies, the stage of market development, the nature and location of the market and the sales organization of the firm will all influence the selection and assortment of sales promotional methods.

In the case of patent medicines, for example, the buying motives evoked are so strong, and the association between product and satisfaction sought so close, that some firms have been able to prosper with no sales effort other than a steady campaign of relatively small-space newspaper advertising. These manufacturers have stimulated a sufficiently strong consumer demand so that consumers request the medicines from druggists. Such firms may have no sales force and merely fill the orders that are mailed to them by retailers and wholesalers.

At the other extreme are some of the breakfast cereals. However appetizing a particular breakfast cereal may be, other similar products can be substituted. As a result, some of the manufacturers of breakfast cereals have had to develop elaborate sales promotional programs, using all, or nearly all, of the formidable list of sales promotional tools.

Between these two extremes lie most of the manufacturers who seek to sell their products to the American public. And, in every instance, each one will have to determine which of these sales promotional methods he will use, in what sequence, and in what proportion.

Use of a Flow Chart

A handy way of planning the sales promotional campaign is to make a flow chart that follows the product from source to ultimate consumer and indicates the various marketing institutions

and intermediaries through which the product must move. Just what sales promotional effort is needed to get the product through each intermediary on the route to the ultimate consumer? This flow-chart method allows the development of a complete, well-integrated plan or campaign at the outset, and makes possible the efficient application of the various tools of sales promotion.

What, according to the flow chart, is the first step? Is it the stimulation of primary demand before retailers will stock the product? Or if there is an established demand for the product, is the first step to obtain adequate retail representation? Whatever it may be, this pre-conceived plan will allow the use of the sales promotional approaches in their proper sequence. A few examples will illustrate the point.

Sometime ago, a firm selling its products through house-to-house canvassing found that—although its sales training program had been adequate to train its salesmen to sell, and although its products were in wide enough use to make every household a prospect—the company was not obtaining the sales volume it expected. A field study indicated that the difficulty was the unwillingness of housewives to give the salesmen a hearing. The company undertook a major magazine advertising campaign solely to pave the way for its salesmen. Had the flow chart method of planning been used, it might have been possible to anticipate this difficulty and to overcome it from the beginning.

In another instance, a manufacturer of tire chains for automobiles did anticipate the kind of resistance he would meet. With a general background of consumer advertising that established consumer acceptance for his product, and with retailers stocking it, the manufacturer placed orders for newspaper advertising early each fall, with instructions to run the advertisements at the first snowfall. By this method, the manufacturer achieved perfect timing for the final step of his sales promotional program.

Common Pitfalls

Two common pitfalls will be avoided by planning the sales promotional program. The first of these is the "shot-in-the-arm" policy, under which a manufacturer will rush in extra advertising, or undertake house-to-house sampling, or offer retailers a deal whenever sales start to slip. Although public response to the sales promotional program of a given manufacturer is somewhat conditioned by the tactics of his competitors, it should not be necessary to resort to last-minute applications of sales pressure if the points of resistance have been anticipated.

The second pitfall is the imitative one. A manufacturer who has adequately planned his own sales promotional program need not make last-minute adjustments when he sees what his competitors are doing. If one cereal manufacturer puts Indians on his breakfast food package, there is little point in another rushing to put wigwams on his! It often happens that, if one manufacturer distributes coupons offering a special price, his competitors will do the same.

The sales promotional program should be conceived and planned in terms of the specific marketing needs of the product. If the planning has been good, there should be no need for last-minute adjustments!

66 O'BRIEN'S OF CALIFORNIA, INC.

Establishing National Distribution

In January, 1947, the government agent notified O'Brien's of California, Inc., that the Armed Forces planned to decrease purchases of vacuum-packed candies to $50,000 for the year 1947. O'Brien's had sold $1,357,482.92, or 61 per cent of the company's vacuum-packed candy sales of $2,212,974.65 to government outlets in 1946.

Faced with the loss of this volume of business, the company immediately began to review its position in the market to determine whether or not it would be economical to seek more intensive national distribution.

Although national distribution was started in 1940, it had not been possible to develop the markets intensively because of the shortages that existed during World War II. In 1945 and 1946, $25,000 had been spent on national advertising. Outlets were established in the larger cities in the United States, and sales in the civilian market increased from $225,125 in 1945 to $345,117 in 1946.

Mr. Charles O'Brien, Jr., asked his advertising agency to prepare a report on the distribution and advertising program that the company should follow in 1947. The agency made a check and found that among the consumers who had purchased O'Brien's candies, the company's vacuum-packed products ranked best in the industry. The quality was superior, and the price seemed to be low enough to meet the price competition of any new vacuum-packed candies that might be put on the market.

In the report which the agency made to the company on March 1, 1947, it recommended that the company change its policy of selective distribution and go after intensive distribution on a national basis. It was the recommendation of the agency that an advertising budget of $175,000 be set aside for 1947 and of this amount, $150,000 be used primarily for national and trade advertising. The other $25,000 would be used for point-of-purchase displays and other promotional material.

The agency emphasized that the company should use sales agents in the distribution of its products to all purchasers and that no direct sales should be made to any outlet. These sales agents would be given exclusive agreements and would be credited with all sales in their respective territories, whether or not they were made through their own efforts.

The agency also recommended that the company make arrangements at once to have the finished goods warehoused in Detroit, St. Louis, Kansas City, Seattle, New Orleans, Denver, Miami, Des Moines, Oklahoma City, Columbus, Topeka, Beloit, Buffalo, Cincinnati, Providence, Atlanta, Birmingham, Indianapolis, Youngstown, Memphis, Dallas, Hartford, Norfolk, Louisville, and Dayton, besides the eight cities in which warehouse arrangements had already been made.

Because the inventory on hand had increased from $365,721 in January, 1947, to $483,016 by March, 1947, it was important that some immediate action be taken.

The vacuum-packed candy business of the company was started in 1939 to determine if distribution of O'Brien quality candies could be obtained beyond the limits of the area served by the San Jose store. The first candy selected for distribution and packed in vacuum cans for this purpose was Nutti Brittle, one of the most popular candies sold at the retail store for many years.

Although sales in the initial period were slow, studies and investigations made at this time by Mr. Charles M. O'Brien, Jr., convinced him that vacuum-can packing would preserve the qualities of candy and make possible national distribution of various of the O'Brien candies. As a result, in 1940 Nutti Brittle was placed on sale in several of the larger cities in the East and Midwest.

In the years 1940-1941 sales developed slowly, with promotional costs high and profits limited. To expand the national distribution beyond the limits of the few cities previously sold in, the national promotion and distribution of the vacuum-packed candies was placed in the hands of sales agents. A sales agent was appointed in March, 1942, for the eleven western states. Imposition of sugar rationing in April, 1942, however, severely restricted further national expansion because of the limiting effects of the sugar rationing on the production of candies for civilian use.

In 1943, the Army and Navy began to buy O'Brien vacuum-packed candies for use in tropical and sub-tropical areas. These candies were also sold inside the United States in Army post exchanges. During the fiscal years ended June 30, 1944 and 1945, sales to government agencies comprised 58.8 per cent and 73 per cent, respectively, of the combined sales of vacuum candies and all other sales of the company.

Resumption of expansion of national distribution on a limited scale came in November, 1945, with the appointment of five additional sales agents to cover the eastern, southern, southwestern, and middle western sections of the country.

The business of the company grew from the original O'Brien's candy store established by Mr. Maurice O'Brien in San Jose, California, in 1868; in January, 1947, the company was the largest producer and seller in the United States of candies packed in vacuum cans.

Vacuum packing of candies reduces to a minimum the effects of heat, cold, light, humidity, excessive dryness, and other climatic

conditions. Under normal merchandising conditions, the candy is received by the ultimate consumer almost as fresh as when first made. Vacuum packaging makes it possible to sell these candies throughout the United States on a year-round basis, particularly, in the areas where summer heat and humidity make it difficult to retail candies containing chocolate, nuts, butter, or other perishable ingredients. During the war, large quantities of O'Brien vacuum-packed candies were purchased by the Army and Navy for use in tropical areas because candy so packed did not spoil.

Sales Operations

Candies are sold in the civilian market primarily through drug and department stores, with some distribution through grocery and cigar stores. Three candy items are sold at the following retail prices: Almond Crunch at 89¢ for a 12-ounce can, Brownies at 66¢ for a 12-ounce can, and Nutti Brittle at 39¢ for a 10-ounce can. The retail price reduction is based upon elimination of jobber's discounts and a smaller retailer's markup. No reduction was made in the company's wholesale selling price.

Curve of seasonal influence in the company's vacuum-packed candy sales is approximately as follows: Peak sales occur during July-August-September, with a declining trend to the following March-April period and a rise thereafter to the peak period.

All candies are sold under the O'Brien trade name. Majority of trade marks are registered, with registry applications in process on the balance. Exclusive of Army and Navy business, dollar volume of sales of vacuum-packed candies for the ten months ended February 28, 1947, in the following territories was eleven Western States, 21 per cent; Middle West, 21 per cent; New England, 5 per cent; New York-Pennsylvania-New Jersey, 20 per cent; South and Southwest, 33 per cent.

Finished goods are warehoused at Chicago, Boston, New York City, Philadelphia, Pittsburgh, Jacksonville, Tampa, and Houston. The company anticipates that larger warehouse stocks at these points may be needed in order to make quicker delivery on sales than has been necessary in the past.

Manufacturing Operations

The company uses production line methods in the manufacture of its candies. Three processing lines are operated, which encompass all steps from cooking to final packing of the cans in shipping cases. The company has developed many pieces of the machinery used. The capacity of the plant is such that present facilities are capable of some 50 per cent greater production.

Competition

Other manufacturers distribute nationally candies packed in glass and fiber containers and in cans, with vacuum cans being used in some instances. In regard to vacuum packing, however, the company has the largest distribution of vacuum candies. National distribution of the company's vacuum-packed candies is relatively new in the candy field and has developed since 1945. As a result, the company is not in a position to forecast the amount and nature of increased competition from other manufacturers who may attempt to expand their vacuum-packed candy manufacturing and distribution.

Advertising

Magazines with large national circulation, as well as trade publications, were used in advertising the company's candies. A personalized type of message was featured in the advertisement, with a portrait sketch of Mr. Charles M. O'Brien, Jr. identified as "Senior O'Brien from San Jose," in a Spanish fiesta hat with a shamrock in his buttonhole. Other advertising includes direct mailings to wholesale jobbing accounts and the supplying of newspaper mats and colored display material for use at the point of retail sale.

The balance sheet and statement of income of O'Brien's is given in Schedules I and II.

SCHEDULE I

O'Brien's of California, Inc.

Balance Sheet

February 28, 1947

Assets

Current Assets:		
Cash		$ 209,568.51
Receivables		
Customers' Accounts	$111,282.08	
Notes	2,150.00	
Accounts Receivable Officer	10,973.86	
	$124,405.94	
Less Reserve for Bad Debts	6,703.25	117,702.69
Inventories, at cost (not in excess of market):		
Raw Materials	$155,693.10	
Work in Process	12,406.61	
Finished Goods	246,621.01	
Packaging & Other Supplies	68,295.62	483,016.34
Total Current Assets		$ 810,287.54
Prepaid Insurance, Rents, Taxes, etc.		25,137.78
Property, Plant, Equipment at Cost less Reserve for Depreciation:		
Land	11,144.84	
Building	174,736.94	
Equipment	450,528.45	
	$636,410.23	
Less Reserve for Depreciation	36,738.88	599,671.35
		$1,435,096.67

Liabilities

Current Liabilities:		
Accounts Payable-Trade & Misc.		$ 130,307.64
Accrued Liabilities		
Salaries, Wages and Bonuses	$ 30,420.46	
State, Local & Misc. Federal Taxes	16,284.79	
Federal Income Taxes	37,426.57	84,631.82
Total Current Liabilities		$ 214,939.46
Capital Stock and Surplus:		
20,000 shares of $1.35 Cumulative Preferred Stock	$500,000.00	
77,565 shares of no par Common Stock	600,000.00	
Paid-in Surplus	57,998.06	
Earned Surplus	62,159.15	1,220,157.21
		$1,435,096.67

SCHEDULE II

O'BRIEN'S OF CALIFORNIA, INC.

Statement of Income

For Ten Months Ended February 28, 1947

Net Sales:	
Candy wholesale	
Government	$ 357,482.92
Civilian	1,345,117.00
Other	510,374.73
Net Sales	$2,212,974.65
Cost of Sales:	
Candy wholesale	$1,200,197.64
Other	316,807.98
	$1,517,005.62
Less Purchase Discounts	8,492.99
Cost of Sales	$1,508,512.63
Gross Profit on Sales	$ 704,462.02
Selling, General, and Administrative Expenses	544,970.17
Income from Operations	$ 159,491.85
Other Income	1,700.24
Net Income before Federal Taxes	161,192.09
Provision for Federal Taxes on Income	66,869.61
Net Income	$ 94,322.48

QUESTIONS

1. Should O'Brien's follow the recommendation of the advertising agency and attempt to distribute its vacuum-packed candy on a national basis?
2. If it decides to merchandise its candy on a national intensive basis, what merchandising plan should the company follow?
3. What outlets should the company plan to use at the retail level? Would it be well for the company to include chain stores and supermarkets? Why or why not?
4. Should O'Brien's attempt to control the retail price at which its candies would be sold?
5. Evaluate the advertising program that the company used. Is it well to extend the personalized basis that has been used to date?
6. What would you think of O'Brien's using a selective method of selling instead of an intensive approach?

67 UNITED OIL STATIONS, INC.

Changing the Brand Name

United Oil Stations, Inc., had about 500 company-employee-operated service stations and about 2,000 independent dealers selling United gasoline and oil at retail. These stations were somewhat similar in design. The identification sign hanging at the curb distinguished independent stations from employee-operated stations.

Although the company's sales to the retail trade were increasing, United's percentage of the total retail market was declining. Therefore, the company executives decided that some corrective action should be taken.

Public opinion polls were taken by private marketing research organizations. Dealers were contacted. District managers in the field were consulted. The problem was discussed with top-level management of United Oil Stations.

Some of the more important results of the analyses were the following:

(a) A high percentage of motorists preferred to buy at independent dealers, *except when traveling*. A small percentage preferred to buy at company-operated stations. Market surveys indicated that of those motorists expressing a choice, 68 per cent preferred to purchase at independent dealers in their home communities, whereas 81 per cent expressed a preference for company-operated units when traveling.

(b) When both dealer and company-operated stations were painted the same color, the public could not identify the type of operation. Surveys showed that 95.4 per cent of all motorists believed the company's retail outlets were all company-operated—only 4.6 per cent knew the company sold through independent dealers. Efforts to correct this impression through signs and other elements of station identification—without changing building colors—were unsuccessful.

Thus, the common color scheme, which had been considered an asset not only to the company but also to the independent dealers, appeared to be the root of the problem. The first recommendation

was that company-operated stations continue the use of their orange and red colors and that yellow and white (a far cry from orange and red) be used on the independent stations.

Reasons for Changing Brand Name

It was also recommended that, as part of the program of segregation of United's retail outlets, the brand name of independent dealers be changed from "United" to "Ancon." This change was suggested for many of the same reasons as the change in colors.

The director of research of United stated that anyone marketing convenience goods, that is, cigarettes, food, and gasoline, is dealing with a mass market. Unlike durable goods, that is, automobiles, appliances, and furniture, which require a considerable investment by the buyer, convenience goods are purchased on the impulse of the moment. Sales result more quickly from advertising or publicity (be it good or bad) that appeals to the buying habits of the masses and emphasizes *brand* rather than *manufacturer*. Thus, a considerable advantage accrues to marketers of this kind of product.

The most successful marketers of convenience goods stress brand rather than manufacturer; for example, Lux, Pepsodent, Life Buoy, Spry, Ivory, Chesterfields, Camels, Arrow Shirts, Jello, and Wheaties.

The Ancon Plan Was Pretested

After studying these recommendations, an extensive pretesting plan was developed. Ten units in the Midwest were converted simultaneously to yellow and white colors, and the dealer's name replaced the word "United" at the most prominent location on the canopy and over the pumps. The public was informed of the change through newspaper ads, dealer pass-outs, and direct mail—all of which emphasized the independent status of the units by prominently featuring the dealer's name.

Fifty-one additional dealers' stations—approximately four in each sales district, balanced between metropolitan, medium-size, and small communities—were painted with the new colors.

Initially, dealers included in the test lost some volume because of diversion of business to United Oil Stations. However, the public quickly became familiar with the yellow and white colors, and dealers

were able to pick up enough new business to offset their initial losses.

The results of the tests were such that it appeared advantageous to make the change in identification on the 2,000 independent stations. United Oil Stations continued to use the United name, their orange and red colors, and their well-known identification sign. The independent dealer stations took on an entirely new appearance. The dealer's name replaced the word "United"; the colors became yellow and white; and the word "Ancon" supplanted "United" as the gasoline brand name.

To convince the dealers of the advantages of the separate identification, an intensive public relations and advertising campaign was conducted. The emphasis was placed on the ability of the dealers to secure business not available to the United Oil Stations, Inc. As one executive stated:

"Our company is unique in its ability to address itself specifically to two distinctly different markets, inasmuch as we are one of the few companies that has a substantial number of company-operated stations.

"Here is a good illustration of the division of the market between those customers who prefer company-operated stations and those who prefer dealer operation: We had a United Station at one location for many years, which we must assume was securing the maximum volume in the area through this type of operation. When threatened with the loss of this location, we purchased a site across the street, previously owned by a competitor. His gasoline was displaced by our product and, without any changes in facilities or dealer, we converted the unit to an Ancon operation for our test study. From the time it opened this station has averaged 12,000 gallons per month, an increase of 37 per cent over the sales formerly enjoyed by the prior owner. The effect on the United Station across the street was a loss of only 46 gallons per month."

It was the hope of United executives that the Ancon Plan would produce the following results:

1. Overcome United Oil Company's declining sales trend.
2. Preserve United Oil Stations, Inc., for customers preferring company-employee operation.
3. Open a new market for dealers handling United Oil Company's products.

4. Eliminate public confusion.
5. Increase the volume at both types of outlets.

QUESTIONS

1. Is the brand name or the name of the manufacturer more important to the buyer of convenience goods?
2. Recognizing the value of the name "United" in the market, do you believe it was a sound policy for the company to change the name of all the independent stations to "Ancon"?
3. How important is it to United to eliminate the confusion that existed about the independent and company-employee stations?
4. Do you agree with the United executive that the new identification is beneficial to the independent dealer?
5. Why do you believe United's percentage of the total retail market was declining? Why would the executives expect to increase United's share by changing the colors and the brand name of the independent stations?

68 SMITHTONE COMPANY

Enforcing Exclusive Agency Agreements

The Smithtone Company was incorporated under the laws of an eastern state in 1929 and has for many years occupied a prominent position in the hearing-aid field. Its products, advertised extensively under the internationally known trade name of "Newtone," are sold throughout the United States, and through distributors in fifty-two foreign countries.

The company's principal business, begun in 1930, is the development, manufacture, and sale of hearing aids, designed to overcome or compensate for hearing deficiencies. One of the "innovations" in this industry was the company's introduction of the "base conduction oscillator." In addition to the instruments themselves, accessories such as cords, ear pieces, and various other parts included in the composite instrument are manufactured and sold by the company. The company also distributes hearing-aid batteries manufactured by others.

The Newtone hearing aid is a comparatively small instrument, consisting of a microphone which picks up sound waves, an amplifier which strengthens the electrical impulses produced by the sound waves, utilizing dry-cell batteries as a power supply, and either an air receiver or a base conduction oscillator.

The microphone and amplifier are contained in a single case connected with the batteries and the receiver or oscillator by wires. One of the principal objectives in the development of the hearing aid is to minimize the size of all parts so that the user may wear it comfortably and inconspicuously.

During the first six months of 1953, the hearing-aid division of the company accounted for 91 per cent of total sales volume. Hearing aids and accessories are sold directly to users through exclusive outlets in 325 offices throughout the United States devoted exclusively to the sale of Newtone products.

The district managers who supervise these officers are sales representatives operating their own businesses on a commission basis but adhering strictly to uniform policies established and maintained by the company.

The Smithtone Company operates ten branch offices located in the following principal cities: New York, Boston, Chicago, Detroit, San Francisco, Miami, Dallas, Seattle, Philadelphia, and Kansas City. The purpose of these company-operated offices is to provide appropriately located places for field testing of sales methods and for training of additional field representatives. The company operates three training schools located in New York, Chicago, and San Francisco, where new employees receive a complete training course.

The Newtone instruments are sold under a one-year guarantee. This policy has been in force for many years. Upon or after the expiration of the guarantee period, the guarantee may be renewed for three months at a price of $25 or for one year at $50. During the ensuing guarantee period, replacements are made in the same manner as in the case of a new sale. This continuous service is not made available by any other hearing-aid manufacturer.

In May, 1953, Mr. Carlson, the district manager of the Chicago area, made his bi-monthly check of the St. Louis office. This office had recently been taken over by Mr. Johnson, a young aggressive salesman who had had seven years of sales experience in the elec-

tronic industry before becoming the sales representative of Newtone in St. Louis.

The former St. Louis representative had been associated with the Smithtone Company since 1930 and was the representative in St. Louis from 1935 to November, 1952. At the time of the sale to Mr. Johnson, the district manager checked Mr. Johnson's qualifications very carefully and decided that he was the kind of man the Smithtone Company needed in St. Louis. The previous dealer had not increased the sales of Newtone instruments as rapidly as had the representatives in other sections of the country. For five years its sales volume had been so low that the St. Louis office was in the lower 5 per cent of the 325 offices in the United States.

In the six months since Mr. Johnson had become the sales representative, sales jumped rapidly. The sales volume was large enough so that the St. Louis office ranked twentieth in the country.

During Mr. Carlson's visit in May, he found another hearing aid, "Radiotone," manufactured by a competitor, on display in Mr. Johnson's office.

Mr. Carlson was quite upset about this. He told Mr. Johnson that he had signed an agreement to handle Newtone exclusively and that he was not permitted to carry any competing lines.

During the discussion that followed, Mr. Johnson insisted that, because some of his clients were better satisfied with Radiotone, it was necessary for him to carry both instruments. He also believed that by carrying more than one brand he would be able to give better service to the people of the area.

Because Mr. Carlson did not have the authority to make any exceptions to the exclusive agency agreements, he said that he would report the matter immediately to the home office in New York. The policy of the Smithtone Company in the past had been to cancel the contract with any representative who handled a competing product.

QUESTIONS

1. Recognizing that Mr. Johnson had built up the sales of the St. Louis office very rapidly, should the Smithtone Company cancel his contract?
2. How important is it to a company in the hearing-aid field to operate its agencies on the basis of exclusive contracts?

3. Would Mr. Johnson have any legal recourse if his contract was canceled?
4. Give the advantages and disadvantages of allowing these agencies to handle more than one kind of hearing aid.

69 CARLSON LOCK COMPANY (B)

PLANNING A CONTEST TO STIMULATE SALES

A marketing study was made in 1953 by a large advertising agency to determine why buyers purchased one lock in preference to another. The results showed that, next to price, design appealed most to the various consumers in the market: architects, merchant builders, individual contractors, contract dealers, and the home buyers.

As a result, the agency recommended that the Carlson Lock Company conduct a new design contest. Such a contest would stimulate much discussion, thought, and probably some new ideas.

Carlson's knob designs, metal finishes, new escutcheons, and backset effects have provided the principal new styles in locks, and other manufacturers have copied Carlson's innovations. The agency emphasized that a contest of this kind would develop many new ideas on lock styling. Contestants would submit designs of the exterior appearance of the lock, knob, backset, and escutcheon. These designs would make an interesting exhibit for building shows, and the contest itself would serve as a basis for magazine articles.

The agency believed that it was not important how many really outstanding, practical designs came out of the contest. Even if only two or three designs were worth adopting, the cost would be justified by the publicity and advertising value of the contest. It would show that Carlson was the leader in the field of cylindrical lock design.

Today, the consumer is informed on the scores of building materials and equipment entering into home construction: General Electric products, Pittsburgh Plate Glass, Bruce Floors, Weldwood, Mosaic Tile, Formica, Armco Iron, aluminum products of all kinds, Chase Copper and Brass, Revere Copper, Crane Plumbing, and numerous others. Many of these materials are never seen by the user; yet locks are seen and used every day. Because they have only recently been called to the attention of the consumer, the finer points

of lock construction and design are just beginning to be appreciated at the consumer level.

In talking about such a contest, the majority of architects agreed that it would be extremely worth while. As one of the editors of a leading architectural publication stated, "Such a contest, it seems to me, would attract particular interest, and it would, I should think, be possible to put the spotlight on the recent improvements that have taken place in the installation and operating details of lock hardware."

The agency had studied carefully the memorandum prepared by Kenneth K. Stowell, AIA, which gave the complete procedure adopted by the American Institute of Architects on architectural competitions. The agency had also conducted competitive contests for other clients and was in a position to handle the contest on a very fair and impartial basis.

The agency believed that such a contest would bring Carlson's design to the attention of thousands of small architects and young men who were not familiar with Carlson's background. These were the very men whom Carlson wanted to reach.

The cost of the contest, including prizes, literature, and other incidentals, would run to about $15,000. The first prize would be $5,000; second prize, $3,000; third prize, $2,000.

To arouse interest in the contest, the agency recommended that Carlson advertise in such trade and architectural publications as *Architectural Record, American Builder, Building Supply News, Magazine of Building, Locksmith Ledger, Progressive Architecture, Hardware Retailer, Practical Builder,* and *Hardware Consultant and Contractor*. The cost for this advertising would be between $50,000 and $75,000.

Such advertising in the trade publications could do a twofold job —arouse interest in the contest and, at the same time, give some advertising message. The fact that Carlson developed the button lock, now shared by other manufacturers of cylindrical locks, just as Buick shares its valve-in-head engine, or Iron Fireman its worm construction for stoker operation, would make an interesting advertising story.

In reaching the home buyer, the agency felt that Carlson could take its story of lock design direct to the consumer. Many magazines devoted to home planning, equipment, and furnishings are read extensively. Such publications as *Better Homes and Gardens, House*

Beautiful, *Home and Maintenance*, and *Building Manual and Small Building Guide* would give advertising impact for Carlson in getting its message of quality and design to the consumer.

QUESTIONS

1. Do you believe the contest, planned to stimulate interest among architects and builders, would have much impact on the home buyer?
2. What are the advantages and disadvantages of a contest of this nature?
3. What kind of response might Carlson expect to receive from the contest?
4. Would a contest appealing to the home buyer instead of to the architects and builders be a more satisfactory one?
5. Should the Carlson Lock Company accept the recommendation of the advertising agency and use the design contest plan?

70 THE MULTI-PRODUCTS TOOL COMPANY

Educating the Buyers of a Technical Product

The Multi-Products Tool Company manufactures dies, tools, and plastic molds. In addition, the products of these tools are carried through the manufacturing process to the production of finished pieces or completed instrument assemblies.

The work, composed of both industrial and consumer items, is largely on a job order basis. The company employs from one hundred to one hundred and twenty-five men and has been able to diversify its production quite satisfactorily.

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

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

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

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

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

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

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

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

4. The plug-type tip was recessed so that the heater element was inserted into the tip. This was an important improvement because other irons on the market merely conducted heat from the element to the tip by a butt contact. Higher temperatures were possible with decreased wattage.

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

1. The soldering iron was attractive to a wide market. Both skilled and unskilled persons expressed interest in the iron because of its simplicity of operation.

2. Factory personnel were difficult to train in new lines. Although the iron reduced the job of soldering to merely the pulling of a trig-

ger, it would be difficult to train personnel to know what to solder and how to do it.

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

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

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

QUESTIONS

1. Do you agree with the marketing research firm that the basic problem of Multi-Products Tool Company is one of educating the buyers?
2. What further steps could the company take to educate its market in order to assure the success of the iron?
3. How important is the use of a monthly bulletin in educating the buyers?
4. What method of distribution would you recommend that the company adopt to solve its basic problem?

71 E. J. REAVY

Using S. & H. Green Stamps

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

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

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

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

complicated the policy of who was or was not entitled to the stamps.

Adjustments were constantly being made to keep the customers' good will. The controller decided that the method of granting Green Stamps was too flexible and that too many customers were taking advantage of the liberal policy of the Fillmore Company. As a result, in October, 1953, he sent a written memo to the customers in which he stated that those who had been granted one or more adjustments in order that they might secure their stamps would not be given any more adjustments in the future. Those who had never been given any adjustment would be allowed one, but they would have to show that some mistake had been made.

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

The Reavy misunderstanding resulted from Mrs. Terrold's refusing to grant an adjustment to Mrs. Reavy. On December 30, 1953, Mr. and Mrs. Reavy purchased a maple dining room table for $167.50 and asked to have an appraiser come to their home to let them know how much they would receive on a table which they were going to turn in. The appraiser called at the Reavy home on December 31 and offered $22.50 for the old table. Mr. Reavy then called the store and asked to have the table sent out; he requested that the $22.50 be credited against the purchase price of $167.50.

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

The new statement did not arrive until February 1. Mrs. Reavy was not able to get downtown until February 3, at which time she called at the credit office and explained the problem to the credit manager. Mrs. Terrold listened to the explanation and then said, "I will have to check our records before I can give you an answer, Mrs.

Reavy, so will you excuse me for a minute." After checking the records, Mrs. Terrold returned, and the following conversation took place:

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

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

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

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

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

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

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

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

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

MRS. R.: I am positive that was your policy at that time. I want you to know that I really do not care particularly for the stamps, but right now it is the principle that is important to me. The

Fillmore Store made a mistake, and I feel that you should rectify it. I am entitled to the stamps, and I expect to receive them.

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

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

MRS. T.: I will have to check with the controller and will get in touch with you by letter.

MRS. R.: When can I expect that letter?

MRS. T.: I will be sure to send you a letter by tomorrow.

MRS. R.: By the way, since you are emphasizing names so much, what is your name and position?

MRS. T.: My name is Mrs. Terrold, and I am the credit manager.

MRS. R.: Goodby Mrs. Terrold. I will expect to hear from you tomorrow.

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

QUESTIONS

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

72 HILLTOP HOUSE

Developing a Resort Market

Hilltop House was a small summer resort occupying six acres of land about 120 miles from Boston. For a weekly fee, a guest received his meals, his rooms, and the use of all available facilities.

The business was started in 1941 in a renovated six-room farm house. The Barton family, which includes Mr. and Mrs. Barton and their son, operated the place with the help of two employees.

By 1951, the original place had been expanded to include an enlarged dining room and two separate cottages, each with five sleeping rooms. The house and cottages had been renovated so that there was a bath with every room. The six acres of land were divided by a main road, which made about three acres useless. Swimming was the only available sport. Hilltop House provided transportation once a day to and from a good size stream about a mile away. In 1950, Hilltop House grossed $20,000.

In 1951, when the son was graduated from college, he and his parents decided that the entire place should be expanded and improved. After looking into the possibilities of improving the original buildings and increasing recreational facilities for guests, they realized that a change of location was necessary. The present six acres had no suitable place for a tennis court and no possible place for additional buildings for guest rooms. Improving the existing facilities in order to raise the rates would have involved an expenditure far out of line with any possible future returns.

In February, 1952, the Bartons purchased a large summer home about one mile from Hilltop House and started renovations to make the place ready for that summer.

To provide better facilities than those offered at the old Hilltop House, the Bartons put a great deal of care and money into the construction. A tennis court, a handball court, and a children's playground were built. The stream was now on Hilltop House property and within walking distance. Plans were made to improve the menus by providing a greater variety of food and a more elaborate system of serving. To add to the atmosphere, informal entertainment was

planned for weekend evenings. All these changes and improvements were in keeping with the Barton family's idea of giving their guests more for their money each year.

To help determine the price to be charged by the new Hilltop House, the rates of nearby resorts were checked. The Bartons found that only one resort could be used for comparison because the others were out of the Hilltop House class. The rooms at this resort were not as spacious nor as comfortable as those at Hilltop House and from all reports, the food was not as good. Mrs. Barton had always supervised the kitchen, and many guests returned each year for the food alone. The other resort charged $100 per week for a woman and one child in an inside room and offered discounts of 5 per cent and 10 per cent for reservations made out of season. The Bartons decided to use these figures in setting their rates for the season.

Hilltop House is fairly well removed from the heavy concentration of resort hotels. However, the present tendency among vacationers seems to be away from the overcommercialized atmosphere, and the Bartons hope to take advantage of this trend.

The new Hilltop House has room for about a third more guests than did the original resort. To fill this space to capacity, a more intensive form of advertising and promotion must be instituted. Up to now, almost all guests had been obtained by word-of-mouth recommendations. Whereas the turnover of guests in the past was fairly complete, this type of business requires new customers each year. At this point, Hilltop House needs a lot of new customers, partly to replace the old ones who may be unwilling to pay the higher price, and partly to help fill the added capacity.

The only advertising so far planned is to have a neatly designed and printed brochure made up and sent out by direct mail. The previous guest list will be used as a start, and then other selected lists from various sources will be used. By using a direct mail system of advertising, Mr. Barton feels that there will be some amount of pre-selection of guests. If reservations are not received in great enough quantity, newspaper advertising will be used. This phase of the business, namely, the problem of promotion, is something about which the Barton family needs a lot of advice. The house is usually filled to capacity during the last two weeks of July and the first two weeks of August. The weeks before and after are the slack periods,

and these are the times for which Hilltop House must advertise. The problem is how to spread out the clientele over the summer.

Those who have come to Hilltop House in the past have been mostly professional people—doctors, lawyers, school teachers, accountants, and some businessmen. The Bartons hope to maintain this clientele in the future.

QUESTIONS

1. Considering the change in location, the improved facilities, and the increased costs, what price should be charged at Hilltop House?
2. How can the Bartons reach the middle-income family intent on a vacation?
3. How can these families be convinced that the beginning and the end of the summer are good times for vacations?
4. What means of advertising and sales promotion should the Bartons use?
5. Are there any additional facilities which you believe are needed?
6. Should the Bartons use both the American and the European plans of pricing?

CHAPTER TWELVE

Public Regulation of Marketing

Necessity of Some Regulation

Some public regulation of marketing is necessary. There must be legislation which allows the enforcement of contracts and which provides penalties for fraud. The fact that most businessmen are ethical and socially responsible does not preclude the existence of a few rogues. It is, therefore, equally necessary that the consumer be protected from dangers that he cannot foresee and cannot appraise. The pure food and drug legislation, the many local ordinances requiring accurate weights and measures, and the legislation penalizing misleading and fraudulent advertising are socially desirable.

Importance of Competition

The essence of our form of free-enterprise capitalism is the reliance on competition and free prices to maintain quality and service to the consumer, and to allocate our productive resources to the best advantage of society. Allowed to operate without

legislative hindrance, these forces of competition would reward the efficient and penalize the inefficient. This process takes a little time, but it works with savage inevitability.

Competition knows no mercy. The food store which is able to achieve economies through good management is able to reduce its gross margin requirement. The less efficient store cannot do so, and may be put out of business. The packer who achieves consumer demand for his canned food through effective advertising and sales promotion can process and market in optimum quantities, and can attain a decisive advantage over the packer who has not been so skillful. The furniture manufacturer who devises a better and more economical method of shipping may reduce his marketing costs to the point where he can outsell his competitors on the basis of lower prices.

It is this type of improvement which brings social dividends, which increases the standard of living. It is this same type of improvement which may put the less efficient company out of business. No businessman is likely to believe that he fails in business because he is not good enough as a businessman. Some time ago, a study was made of one hundred retailers who had gone into bankruptcy. Almost all of them blamed their failure on lack of capital and on the restrictive tactics of big competitors. A study of their businesses indicated that it was neither lack of capital nor competition but poor management which had led them to difficulty.

Protection of Inefficient

Our law makers have lent a highly sympathetic ear to the complaints of businessmen who have been pressed by competition. We have acquired a series of national and state laws which serve to shield less efficient firms from the full impact of competition. Out of this maze of regulatory statutes come some confusing contradictions. The Sherman Anti-trust Act of 1890 attempted to maintain competition by forbidding conspiracies in restraint of trade and agreements to fix price. Yet the Robinson-

Patman Act puts barriers in the way of price flexibility. The federal enabling act and the forty-five state acts legalizing "fair trade" agreements make possible the complete elimination of price competition at the retail level for branded merchandise.

All these acts (and various others) state the purpose "in order to maintain competition." It is apparent that the economist and the legislator define competition differently. Obviously, the economist regards competition as the attempt on the part of business firms to obtain more business at the expense of their less efficient rivals, whereas the legislator evidently must regard competition as the maintenance in business of as many companies as possible.

Government Regulation

Two implications of this imputed definition of competition must be mentioned. The first of these is that every weakening of competition as an automatic "cleansing" device in our economy throws the burden of deciding which firms may survive and which not, and which may prosper and which not, on the courts, in their interpretations of these laws regulating marketing. If we so weaken the effect of competition and free prices as a regulating device, we must then submit to some other regulating device. Our choice would lie between the cartelization of industry, with the right of entrance into business severely limited, and government regulation.

The second implication is that the concept of regulation implies *regulation toward some particular model.* In other words, government regulation is necessarily an attempt to make some preconceived state of affairs come true! In his decision against the Great Atlantic & Pacific Tea Company on trial for conspiracy in restraint of trade, the Federal District Judge commented that there was no evidence that the company had attempted to put lesser rivals out of business, but that it had developed great enough economic power to do so if it chose. The decision comes close to saying that the company was re-

quired to compete, but that if it competed successfully, it became illegal, even though it did no wrong.

Another comment on the state of our regulatory policies is that competition cannot be avoided. If, by means of legislation, we make price competition illegal, we thereby encourage nonprice competition. Nonprice competition is likely to take the form of unnecessarily elaborate retail stores, the addition of unnecessary services, and the extravagant use of sales promotional methods. Within limits, nonprice competition may be socially desirable, but when it is unchecked by the possibility of price competition, it can become socially wasteful.

Size of the Firm

One of the questions which arises in any consideration of public regulation of marketing is the question of *bigness*. Is it bad to have big firms? Can small and big firms exist in competition with each other? Do big firms tend to take advantage of the public?

This set of questions cannot easily be answered. Certainly, efficiency in many industries requires bigness. Certainly the well-managed small firm in some instances can compete very well with a big company. And apparently, big firms are more responsive to public opinion than are small firms—which can more easily undertake under-the-counter transactions. Yet the fact remains that the *idea* of bigness tends to frighten the American public.

One way or another, we must come to some consistent public policy with regard to the regulation of all business, and of marketing in particular. The use of legislation as an umbrella for the incompetent is clearly not desirable nor defensible. Entirely aside from this aspect of the problem, our society must develop a set of policies toward business which will not undermine the workings of our form of economy, will not decrease the social dividend, and which will be consistent enough to be workable.

73 DOE PUBLISHING COMPANY

Granting Special Privileges

The Doe Publishing Company is engaged in the publication of educational books for text and general reference use. The company sells the books to different wholesale and retail outlets throughout the United States.

These outlets were placed into certain arbitrary classifications by the company, and on the basis of the classification were granted different services or facilities in the handling, sale, or offering of the books. Among such services was the acceptance for credit of unsold copies of books in the educational division.

The classifications which the company had established were the following:

1. The retail outlets that sold primarily new books to students for use in connection with classes.
2. Purchasers owning or operating two or more places of business that buy second-hand educational books and resell them to retail book stores and/or students.
3. Firms that handle as a substantial part of their activities second-hand books through two or more outlets.

The Doe Company had established a *Return for Credit Policy* which applied only to the first classification, or to those stores which sold primarily new books to students for class use. The policy was stated in the catalog of the Doe Company as follows:

"We will accept for full credit up to 33⅓ per cent of the number of copies of any title listed in this catalog which has been ordered directly from us, providing that the books are returned in a perfectly fresh and saleable condition within 60 days after the opening date of the term or semester for which they were ordered, all transportation and carriage charges prepaid. We reserve the right to reship to the sender, without notification, transportation charges collect, any returns not in accordance with the above."

The Doe Company refused to grant this return privilege to the other outlets and contended that it had to offer this service to the book stores which sold new books for class use because these stores

could not forecast accurately what the enrollment in certain classes at the various universities would be.

Even in the instances where a school has pre-registration, predictions as to the number of students who will take a given class may vary as much as 50 per cent in the actual enrollment. The professor wants the students to get copies of the text in time for the first class and, as a result, the bookstore has to have an adequate supply of texts on hand. To help solve this problem, the Doe Company granted what it considered a satisfactory return privilege.

On the other hand, although the other types of outlets sold a limited number of books to students, the bulk of their business was in second-hand or wholesale books. The Doe Company believed that it had a right to differentiate between the services it offered because the outlets were not all doing the same kind of selling.

The firms which were not granted the return privilege insisted that they were put at a disadvantage in competing with the stores which did secure it. In placing orders with the Doe Company, they had to buy on a hand-to-mouth basis because they could not afford to take the risk of having extra copies of texts left in inventory after the semester got underway. As a result, these outlets purchased only a limited number of the texts during each period, and in some cases they were sold out at such an early date that it was impossible for them to compete with the outlets which had the privilege of returning 33⅓ per cent of the number of copies they ordered.

The firms held that this practice of the Doe Publishing Company violated sub-section (e) of section 2 of the Clayton Act as amended by the Robinson-Patman Act.

QUESTIONS

1. On what basis may a firm grant different services or facilities to various outlets?
2. Does the Doe Company have the right to arbitrarily set up different classifications for its outlets?
3. What is the significance of these classifications in terms of the services which may or may not be offered?
4. Did the Doe Company violate the Robinson-Patman Act by the above practice?
5. What recommendation would you offer to the Doe Publishing Company?

74 HANOVER PHARMACAL COMPANY

Analyzing a Manufacturer's Position Under Fair Trading

In 1948, the Hanover Pharmacal Company, for many years manufacturers and distributors of pharmaceutical products sold largely to prescription druggists as ingredients for prescriptions, decided to enter the field of branded merchandise. The executives of the company planned to sell not only precompounded prescriptions (which would rarely reach the consumer under the company's brand) but also a line of household remedies, such as aspirin, cough syrups, lozenges, laxatives and anti-histamines, and a line of items including a dentifrice, shaving creams, face creams and deodorants.

The company's change in policy had been forced on it by developments in the drug field. Leading manufacturers in the pharmaceutical field had been carrying on extensive research programs which had been the basis of the introduction of new prescription compounds dispensed by druggists without more than a re-labeling or repackaging. These various compounds were supported by research reports in medical journals, by clinical studies similarly reported, and by extensive promotional programs—that is, by frequent sales calls on physicians by technically trained salesmen who would explain the clinical results obtained and discuss the conditions under which the compounds might be prescribed. As a result, the physicians were likely to prescribe a precompounded medicine which the druggist did not have to make up from basic ingredients and raw materials. The widespread acceptance of this practice had materially decreased the market for basic chemical and pharmaceutical products.

Pricing and distribution for factory-compounded medicines did not constitute a major problem. If a particular product was accepted by physicians as a result of the promotion done, druggists had to stock it. And, since the consumer did not know its source, price comparisons were impossible. Moreover, since the product was dispensed as the result of a physician's prescription, the consumer was not likely to make an effective complaint about its price.

With respect to the household remedies (other than patent medicines) and the items of personal care, the situation was entirely dif-

ferent. Here, consumer acceptance based on advertising, or retailer support based on recommendation, point-of-purchase advertising material, preferable counter location, and store display determined market position. In supermarkets, for example, studies have shown that sales of a particular brand of canned goods would drop as much as 50 per cent when stocks were moved from an eye-level shelf to a lower shelf, as long as other popular brands were readily apparent. Thus, the goodwill and active support of retailers were particularly important to Hanover in its drive to popularize its brands.

During 1948-1949, and the early part of 1950, programs of marketing and product research were carried on, and served as the basis for the selection of a toothpaste which carried a powerful anti-bacterial agent and a breath-sweetening flavor; a shaving cream carrying the same anti-bacterial agent, a mouth wash or gargle; and a gentle laxative. Vigorous consumer advertising was launched. Because of the previous sales relationships with drug stores, it proved relatively easy for Hanover salesmen to get at least skeleton inventories in most drug stores, including the various chain drug company stores. No particular problems with pricing developed.

In the summer of 1952, the McGuire amendment to the Miller-Tydings Act was passed, specifically legalizing fair trade contracts with those firms which had not signed them. Immediately, there was a strong insistence on the part of independent druggists all over the country that Hanover "fair trade" its merchandise, or these druggists either would refuse to stock Hanover products or would discourage their sale.

The fair trade controversy in the drug field was an old one. During the nineteen-thirties, a number of chain drug firms grew large, and were able, apparently, to operate on a somewhat lower gross margin than the independent druggists. In addition, so-called pine-board drug stores arose—stores which typically did not offer prescription service, operated with a minimum investment in fixtures, and used customer self-service to a high degree. The gross margin requirements of such stores were very low. Price competition in the field of drug store merchandise became very keen. Trade associations in the drug field (as well as those in the book trade, the electric appliance field, and so forth) complained so effectively that the Miller-Tydings Act, legitimatizing state fair trade laws, was passed in 1936. Rather rapidly, all states but Vermont, Missouri, and Texas (and the District of

Columbia) passed fair trade laws. Although these laws differed somewhat, they typically allowed a manufacturer to set minimum retail prices for products carrying his brand, and to establish these prices through contract with a very small number of retailers. Other retailers, even though they objected to the minimum resale price stipulations, and had not signed the contracts, were legally covered by the stipulations.

By the time the Hanover line was attaining some degree of consumer acceptance, fair trade legislation was virtually nonoperative because the United States Supreme Court, in the Schwegmann case, had ruled that the Miller-Tydings Act had not been specific in making permissive enforcement of fair trade legislation against nonsigners of minimum-price resale contracts. But with the passage of the McGuire Act in 1952, clearing up this omission or ambiguity, it became possible again to enforce fair trade contracts.

Proponents of fair trading maintained that such contracts were necessary to maintain competition. They insisted that large chain stores, because of their greater economic strength, were able to cut prices on a few popular items; independent merchants could not compete unless they followed these price cuts, and could not stay in business if they did. Moreover, proponents of fair trade practices indicated that such price cuts were largely deceptive, were "bait and leader" tactics, designed to deceive the customer into thinking that other merchandise was sold at equally low prices, whereas margins on merchandise that was not subject to direct price comparison might be considerably higher than usual. They characterized practices during the period when fair trading was not feasible as done "under the law of the jungle."

On the other hand, opponents of fair trading stated that price competition had been the basis of most of this country's business achievements, and maintained that the inability of more efficient retailers—who could afford to sell at a lower gross margin—to lower price merely protected the inefficient, and drove competition into nonprice channels which were socially costly.

When they were confronted with insistent demands for fair trading, executives of Hanover studied their distribution figures, and found that 38 per cent of their volume on the new products came from the larger chain store firms, most of whom were against fair trading, whereas 62 per cent came from the independent druggists,

most of whom were insistent on fair trading. Although they realized that they would lose distribution through the larger firms if they instituted fair trade contracts in those states where fair trading was legal, they believed that they would lose a competitive advantage accruing from freedom from price rigidity. On the other hand, they realized that nearly two-thirds of their sales were coming from the independent druggists, who could—if they were determined to do so —almost completely exclude Hanover from distribution through independent drug stores.

QUESTIONS

1. To what extent does consumer interest depend on price competition between competing retailers?
2. Is fair trading a socially desirable or undesirable business practice?
3. To what extent is fair trading necessary for the survival of the independent merchant?
4. To what extent is it desirable for the manufacturer?
5. As a matter of business policy, should Hanover have instituted fair trade contracts in the states where such contracts are legal?
6. If Hanover executives had believed that fair trading was undesirable as a long-run practice, could they have held out against the pressure of the independent druggists?

75 J. J. WEITZEL

Considering a Retailer's Position Under Fair Trading

J. J. Weitzel took over as manager of the Weitzel Appliance Store upon his discharge from the Army in 1951. The Weitzel store had been in the family for three generations and over the years had developed a loyal clientele.

When the young Mr. Weitzel replaced his father as manager, he decided that he would put some new aggressive ideas into effect in order to attract more customers. The policy of Mr. Weitzel, Sr., had been very conservative and, as a result, the store had not made any significant progress during the past five years.

The first thing Mr. Weitzel, Jr., did was to have a store-wide sale in which all items were marked down 10 per cent. The response was

very satisfactory, but he immediately began to receive complaints from other dealers in the area. He told them that he had the right to cut prices because at no time had the Weitzel store signed a contract with a manufacturer to sell products at any fixed retail price.

Mr. Weitzel continued to cut prices and was informed in the early part of 1954 that he was one of 145 individuals against whom a major appliance manufacturer had filed a complaint for not abiding by the resale price which had been set for the state by the said manufacturer.

In 1937, the Sherman Act was amended by the passage of the Miller-Tydings Bill. This amendment provided that a manufacturer of a trademarked or otherwise identified product had the right to establish the resale price at which the product could be sold. For a manufacturer to take advantage of this privilege, he had to sign a contract with at least one distributor and then notify all other distributors in the state. All these other distributors were then obligated to maintain the price set in the contract.

In May, 1951, John Schwegmann, Jr., the New Orleans supermarket operator, broke fair trade when the Supreme Court, in Schwegmann Brothers *et al.* vs. Calvert Distillers Corporation, declared nonsigner's clause in interstate trade was illegal under the Miller-Tydings Amendment.

However, through the efforts of the National Association of Retail Druggists and other groups, the United States Congress passed the McGuire Act in 1952 again legalizing the "nonsigner" clauses. Under the Act merchants are legally bound to stick to fair trade prices whether or not they have signed contracts. John Schwegmann again tried to make a test case of his refusal to sign a contract, but the United States Supreme Court refused to review the Lilly-Schwegmann case in 1953.

The arguments against resale price maintenance include the following:

1. It is not logical that a producer should bind every retail and every consumer in a state by entering into a contract with one retailer.

2. There is no reason for the housewife to have to pay one price regardless of where she makes her purchase.

3. Prices are not marked down on a few articles (loss leaders) to lure customers into a store where they will be required to pay higher

prices for other articles. Markups are uniform but are low and are based on low-cost merchandising.

4. Fair traders are interested in one thing—price fixing to avoid competition.

5. The object of fair trade legislation is to shield the marginal or high-cost retailer.

6. Prices to the ultimate consumer are higher under resale price maintenance.

The arguments for resale price maintenance emphasized such points as:

1. The manufacturer's property rights in the goodwill of his trademark will be protected.

2. It requires businessmen to compete on the bases of skills, efficiency, ingenuity, hard work and service, and not on the basis of price alone.

3. It will prevent price discrimination.

4. Without the law, detrimental price wars will develop.

5. Predatory loss selling, which is unfair to the consumer, will be used.

QUESTIONS

1. Do you believe that, under a system of resale price maintenance, prices are higher or lower to the ultimate consumer?
2. How significant is the argument that fair trade legislation shields the marginal or high-cost retailer?
3. Why is the National Association of Retail Druggists so interested in maintaining resale price maintenance?
4. Why are those who favor resale price maintenance so fearful of "loss leader" merchandising when thirty-one states already prohibit selling below cost at a reasonable markup?
5. From the economical viewpoint, is it better for Weitzel to maintain his retail prices and give larger amounts on the trade-ins, or to drop retail prices below the amount set by the manufacturer and offer lower amounts on the trade-ins?
6. In the interim period, before the complaint against Weitzel is tried, what policy would you recommend that he follow?

76 HOLEPROOF HOSIERY COMPANY *

Checking on Advertising Appeals

The Holeproof Hosiery Company sells and distributes ladies' hosiery to a large number of outlets in various states from its headquarters in Wisconsin. The company conducts an extensive advertising campaign in magazines, periodicals, and other media in which representations with respect to its hosiery are made.

The Federal Trade Commission believes that the representations in the advertising as made by the Holeproof Hosiery Company violate the Federal Trade Commission Act. It is the opinion of the Commission that a number of the representations are false and misleading.

Among the representations made by the Holeproof Company are the following:

1. *Luxuria Crepes in Holeproof Fine Stockings*—
No need to sacrifice beauty to practicality! These flattering Holeproof Fine Stockings wear exceptionally well because the high crepe twist makes them stronger, more snag-resistant. Two-Thread Chiffon in Holeproof's exclusive "Recreation Colors."

2. *Luxuria Crepes*—
Fine Stockings made more beautiful by Holeproof's exclusive Beauty-Lock process, which seals tiny silk filaments into sleek strands . . . making hose clearer, legs lovelier. Give these snag-resistant stockings care in washing and you'll get extra wear . . . because of the high crepe twist! Three lengths in a flattering 3-thread chiffon.

3. *Holeproof . . . Luxsheer Rayons*—
Exclusive Beauty-Lock process preserves first-wear beauty! High twist—the secret of increased elasticity, resistance to snagging! Sheerer! Duller! Three lengths—each properly proportioned to exacting standards for perfect fit, supreme comfort, better wear.

4. Holeproof's exclusive finishing process, Beauty-Lock, makes colors clearer, textures sheerer, preserves first-wear beauty.

* This fact situation has been taken in digest form from the Federal Trade decision in Holeproof Hosiery Company v FTC, FTC Docket 5169 in FTC Decisions, Vol. 47.

5. Be Carefree and forget the danger of ugly runs in NON-RUN Holeproof Chiffons—

* Go on your way serenely . . . blithely . . . in lovely Non-Run Chiffon by Holeproof. No worrisome, ugly leg runs to bother about . . . for the special lock-stitching method of knitting * prevents them! Sheer . . . flattering . . . lacy . . . ever so practical 3-thread Chiffons. In charming colors.

Complaint

The Commission claimed that Holeproof hosiery was made with a conventional weave, on knitting machines of a more or less standard design, out of strands of silk, rayon, and other fibers, which are first turned or twisted a number of times according to standardized practices. Either before the hosiery is knitted or after the hosiery is made, it is treated with chemicals to make it less susceptible to certain types of damage and hosiery failure.

Although other kinds of hosiery, made from different materials and by different methods, may be more susceptible to snagging, Holeproof hosiery will not withstand or repel completely the action of snag-producing surfaces during normal use.

Although the high twist yarn and the type of chemical treatment used by the company may make the hosiery less susceptible to some types of snagging, it is difficult to ascertain to what extent the hosiery is protected in normal wear.

The representation made about the use of its "exclusive finishing process, Beauty-Lock" implies that hosiery made by other manufacturers is not subjected to a similar finishing process. Many persons infer from the word "lock" that the process is a type of knitting in which a certain kind of stitch is employed. Actually, "Beauty-Lock" refers to the chemical treatment given the hosiery and has nothing to do with the type of stitch used.

The representation that the hosiery is "non-run" is also misleading because "runs" will and do appear and will not stop until they are arrested by the weave or stitch.

* Pat. No. 1470490.

Company's Reply

The Holeproof Company emphasized in its reply that it uses an exclusive finishing process called "Beauty-Lock," and that certain of its hosiery is non-run. It denied that the term "snag-resistant" means snag-proof or extremely resistant to snags; it also denied that "exclusive finishing process" means that other hosiery manufacturers do not employ the same kind of finishing process as that used by the Holeproof Company.

Because of its high crepe twist construction and its "Beauty-Lock" process (treatment of the hosiery with chemical solutions to bind the threads and filaments more closely together), the Holeproof hosiery is less susceptible to snagging than is hosiery not made of high twist material and not chemically treated.

The company further claimed that, although other manufacturers treat their hosiery with chemicals of the same general class, the mixtures and proportions of the chemicals and the methods of application vary considerably. Such variations result in substantial difference in the qualities of the hosiery so treated.

Holeproof hosiery, represented as non-run, employs at intervals a type of stitch, known as a lock stitch, which forms a barrier against runs. When a thread is broken in the non-run hosiery, it disengages only as far as the lock stitch unless pressure is applied. In the opinion of the company the general public considers such a hole to be a run.

QUESTIONS

1. How important is the Federal Trade Commission in checking false or misleading advertising?
2. To what extent does a company have the right to make general and specific claims about its products?
3. From the facts given, would you consider that the representations made by the Holeproof Hosiery Company in its advertising are false or misleading?
4. The Federal Trade Commission dismissed the complaint against the Holeproof Hosiery Company. Do you agree with its decision?

77 FOLSOM COMPANY

Examining Regulations of Wool Products Labeling Act

The Folsom Company is engaged in the manufacture and interstate sale and distribution of sportswear, including sweaters, sport coats, and other garments. The company, known to the trade and the public as the MacDougall Company, sells its products under the trademark "MacDougall" and features the Scotch theme in its wholesale showroom.

One of the competitors of the Folsom Company presented a complaint to the Federal Trade Commission which stated that Folsom was violating the rules and regulations promulgated under the Wool Products Labeling Act of 1939.

The complaint brought out that the company, in order to promote the sale of its products, uses various trade names, symbols, designs, pictures, and other representations in its advertising literature to lead the purchasing public to believe that it is engaged in the sale of merchandise, all of which is imported from the British Isles. Only a very small percentage of Folsom's products are imported from the British Isles. About 92 per cent of the products are manufactured in the United States.

Folsom's showroom in San Francisco has the appearance of a Scottish house—with heavy brown wooden beams, old-fashioned colored lanterns hanging from the ceiling, Scottish shields and coats of arms painted at various places on the walls, and pictures depicting Scotsmen dressed in shawls, kilts, and tam-o'-shanters, holding bagpipes and knotted walking sticks.

All of Folsom's sweaters contain a cloth label bearing the word "MacDougall" and are sold under such British and Scottish trade names as Moortweed, Scot Cyer, Vest, Woodyurd, Lochmoor, King Castle, Shetmoor, and Dunmoor. The letterheads, labels, tags, wrappers, boxes, catalogs, and other types of advertising matter featured Scotch-plaid borders and a picture of a Scottish knight dressed in kilts of Scotch plaid and bearing a shield and sword.

The information required by the Wool Products Labeling Act (showing the percentages of wool, reprocessed wool, or reused wool

contained in the garments) was printed on perforated tags which could be easily removed from the garments. Besides these tags the company attached cloth labels. On these cloth labels such terms as the following were printed: Wool & Cashmere, Lamb's Wool & Kid Mohair, Wool & Camel's Hair.

On some of its tags and labels, the required information was obscured by crowding, intermingling, or superimposing thereon other marks, figures, and statements.

QUESTIONS

1. Is it necessary for a manufacturer to disclose the country or the origin of his products?
2. As long as the Folsom Company did not represent that its products were purchased in the British Isles, would it be guilty of misleading the general public on the basis of the information given in the case?
3. Does a company that uses terms connoting or suggesting British or Scotch origin have to designate the source of such products?
4. Is the Folsom Company's practice of giving all the information required by the Wool Products Labeling Act on a tag and then using a second cloth label on which is printed only a general statement as "Wool & Cashmere" permissible?
5. How important is it to the average consumer to have such information as the following on the tags:
   (a) Percentage of the total fiber weight of the wool product of (1) wool, (2) reprocessed wool, (3) reused wool, (4) each fiber other than wool where the percentage of weight is 5 per cent or more, and (5) the aggregate of all fibers.
   (b) The maximum percentage of the total weight of the wool product of nonfibrous loading, filling, or adulterating material.
   (c) The name of the manufacturer of the wool product, or the manufacturer's registered identification number and the name of a seller of the product.

78 THE SEETON PACKING COMPANY

The Importance of the Use of Grade Labeling

In 1946 with credit established by government loans under the system of veterans' benefits, two brothers—both veterans—James A.

Seeton and Ralph I. Seeton, started a fruit and vegetable packing plant in Albany, Oregon. Both brothers had had their experience in the production aspect of the packing industry. They had been able to buy a small but well-equipped plant, and with their technical knowledge and their proximity to Willamette Valley fruits and vegetables, they were able to produce a small quantity of very high-quality canned foods.

At the outset, they were able to sell all they could produce at a satisfactory margin to food chains for private branding. During the next several years, as consumer goods became more plentiful, they had to accept several reductions in price. In the meantime, through research in processing methods, they had been able to apply a new method of heat treatment which cooked vegetables and fruits so quickly that their canned foods came out of the cans at almost the peak of sun-ripened condition.

Feeling that they had a product far superior even to the highest grade of canned goods usually sold, the Seetons approached buyers of several of the chain store firms and several large independent food stores as well to determine the acceptability of a line of canned foods under a Seeton brand. In every case, they were told that there would be no interest in an additional packer's brand unless consumer preference for it had been established. Between the private brands for each firm and the several well-established packers' brands, the food company buyers felt that public demand was being adequately satisfied, and that an additional brand would merely increase inventory and decrease stock-turn.

One buyer suggested that the Seetons continue their private brand business as a mainstay, but attempt to get a Seeton brand into small grocery stores through intensive selling effort. Because the brand would be new, the buyer suggested that the Seetons rely on government "grade labeling" as an indication of satisfactory quality. The buyer believed that, in time, it might be possible for the Seetons to broaden the distribution of their own brand, even after a small and limited start, as consumers became familiar with the high quality of the foods so branded.

On looking into the possibilities of grade labeling, the Seetons found that, though the original U. S. Food and Drugs Act of 1906 and the Meat Inspection Act of 1906 had attempted to safeguard consumers from impure and unsafe foods and drugs, it was not until

1940 that the Agricultural Marketing Service of the Department of Agriculture offered a formal grading service for canned foods. Under this service, a Department of Agriculture inspector is stationed in each cannery or packing plant using the service, to inspect and grade a sample of the output; if these frequent samplings do not fall below standards, the firm is allowed to use the Agricultural Marketing Service designation, U. S. Grade A, U. S. Grade B, or U. S. Grade C —whichever is appropriate. The cost to the packer is only the cost of maintaining such continuous inspection during his periods of production.

Mr. James A. Seeton investigated the basis on which grades were established. He found that, in the case of canned peas, the grade was determined by freedom from foreign material (small stones, bits of vine, and so on), percentage of solid content, the uniformity of size of the peas, the degree of softness or crushability (technically called "succulence"), and the color. There was no consideration of flavor or nutritional value. In the case of tomatoes, the grades were established by freedom from foreign material, percentage of solid content, wholeness of tomatoes, and shade of red as measured against a black background by Munsell color disks.

In every case, the standards for U. S. Grade A were considerably below the quality maintained by the Seetons. Moreover, he learned that very few of the private brands distributed by the large chain store firms, and almost none of the widely accepted, nationally advertised brands used grade labeling. Most of the firms using grade labeling for canned foods were regional firms and small volume distributors.

On the other hand, several of the larger chain grocery firms used a descriptive label which showed, in accurate lithographic reproduction on the label, the size, shape, and color of the contents of the can.

On the basis of their investigations and discussion, it was decided that Mr. James A. Seeton would operate the packing plant, hiring a young man with agricultural college training to help him buy produce; Mr. Ralph I. Seeton would attempt to establish the Seeton brand, using an adequately descriptive label, with smaller independent grocery stores, in the hope that they could establish in the minds of consumers the superiority of the Seeton pack, and ultimately broaden their distribution and support it with consumer advertising.

QUESTIONS

1. How important is grade labeling to the average consumer?
2. Why is it that the large chain stores and national packers do not make use of grade labeling to a greater degree?
3. When a company is producing a product which exceeds the standards for Grade A, would it be wise for such a firm to make use of the U. S. Department of Agriculture service?
4. Would the quality of the products be higher or lower under a system of grade labeling? Do you believe it would be sound to put this labeling on a compulsory basis for all concerns?
5. If a compulsory system were adopted, would it still be advantageous for the packers to use individual brand names?
6. Would the consumer be protected more fully under a system of grade labeling?
7. Should the Seeton Brothers make use of grade labeling for their products?

79 THE MERCHANTS ASSOCIATION OF PUTNAM

Deciding on Adopting Green River Ordinance

Putnam, a county seat town with a population of 14,593, is located in the agricultural area of a midwestern state. Farms in the surrounding country side are prosperous; they specialize largely in wheat, soya beans, and hogs. Putnam serves as the major trading center of a circle roughly thirty-five miles in radius. Approximately two-thirds of the retail sales of Putnam merchants are made to farmers in the surrounding area. The town has, among others, two hardware stores, a general drygoods store, two building material firms, three farm supply stores, several men's and women's clothing stores, two jewelry stores, three drug stores (which also handle agricultural chemicals and veterinary supplies), and several food stores.

Throughout World War II and the years immediately following, retail sales were excellent. In 1952, they dropped slightly below the 1951 level, and showed an appreciable further drop for 1953. In a meeting of the Merchants Association toward the end of 1953, this decline in sales was discussed. Several of the retailers attributed it to the drop in the price level of farm products. Most of the retailers,

however, blamed the decrease on their loss of business with out-of-town firms who sent in sales crews to solicit business on the basis of house-to-house canvassing. It was pointed out that one firm had sold substantial quantities of sterling silver tableware through such house-to-house selling. It was known that one contracting firm had sold five house painting contracts, and ten jobs of re-siding dwellings with asbestos shingles. It was known that two men had been selling so-called custom-tailored men's suits, that the representative of a firm manufacturing a new type of power lawn mower had made a number of sales. Although the figures were based largely on guesses, the consensus was that 1953 sales for Putnam merchants would have exceeded the high point year of 1951 if they had been able to get the business that had gone to out-of-town firms on the basis of house-to-house selling.

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

"Ordinance No. 175

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

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

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

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

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

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

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

QUESTIONS

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

80 THE HILMAR COSMETIC COMPANY

Studying the Use of a P.M.

For many years, the Hilmar Cosmetic Company of Chicago had manufactured an extensive line of cosmetics, including lipsticks, deodorants, face powders, rouges, and hand creams. It followed the usual sales promotional tactics of the cosmetics trade, doing relatively small-space advertising in several of the women's magazines, but spending most of the advertising and sales promotional budget on advertising allowances and P.M.'s for retail sales people. Before the passage of the Robinson-Patman Act, it had paid the full salary of a saleswoman in the cosmetics and toilet goods department of leading

department stores with the understanding that the saleswoman so employed would make every effort to sell Hilmar goods.

Only the larger stores were so favored, and the practice fell under the prohibition of the Robinson-Patman Act, because the inducement was not offered on proportionately equal terms to all customers of Hilmar. When the so-called "hidden demonstrators" were given up, Hilmar increased its P.M.'s to 5 per cent of the retail price of all Hilmar merchandise sold by each saleswoman. A "P.M." is an extra commission or bonus offered to salespeople for the sale of particular brands or types of merchandise. The derivation of the term is not clear, but it is often called "push money" or "premium money."

In 1951, the Federal Trade Commission banned the practice of allowing retail sales personnel P.M.'s by cosmetics manufacturers unless the employers of the salespeople were fully informed of the arrangement and unless the salespeople wore some sort of insignia (possibly a ribbon, or other sign) indicating to the shopping public that the salespeople were retained by the specific manufacturer to represent him. In the language of the order, it was an unfair trade practice to make any payment to salespeople "with the capacity and tendency or effect of thereby causing the purchasing or consuming public, when making purchases of such products, to be mislead or deceived into the erroneous belief that such clerk or salesperson is free from any such special interest or influence, or is not so subsidized or paid by such member."

The fact that the saleswoman behind the cosmetics counter of a good-sized department store might be receiving P.M.'s from a dozen or more different manufacturers made the "Tagging" procedure virtually impossible. Moreover, many stores offer P.M.'s to their own sales personnel for pushing the sale of particularly high-margin merchandise.

In November, 1953, the Federal Trade Commission reversed its stand, and offered to revise its Code for the Cosmetics and Toilet Goods industry. Under the more liberal interpretation of the Federal Trade Commission, P.M.'s could be offered, provided the employers of the salespeople receiving them knew of, and approved the arrangement, provided no such arrangement "unduly or intentionally" hampered sales of competing products, and provided the arrangement was offered on proportionally equal terms to sales personnel or competing retail establishments.

When the Federal Trade Commission announced the liberalization of its restrictions, the sales manager of Hilmar Cosmetics Company urged an immediate resumption of the P.M. offer, stating that it was an established custom of the trade, followed by all Hilmar's major competitors, and that it was necessary if Hilmar wanted to maintain its market position. On the other hand, the president argued that, if all competing firms offered the same inducement, the benefit of the P.M. was canceled for all of them, and it merely meant a lower price for the industry. He suggested that the company consider increasing consumer advertising instead of resuming P.M.'s.

QUESTIONS

1. How important is the use of a P.M. in merchandising cosmetics?
2. Is the fact that competing firms offer this inducement important enough to force Hilmar to use it also?
3. What are some of the advantages and disadvantages of the use of P.M.'s?
4. What are some of the legal implications of the Federal Trade Commission's decision?
5. What policy would you recommend that Hilmar follow?

81 AMERICAN BUSINESS SURVEY, INC.*

Determining the Right to Use a Product Name

American Business Survey, Inc., is charged by the Federal Trade Commission with using a misleading product name and with misrepresenting its business status in connection with the sale of a magazine entitled *American Business Survey*, purporting it to be a "Recording of the Achievements of Commerce and Industry."

American Business Survey, Inc., is a corporation organized under the laws of the State of New York. Milton Strauss, its president, is the principal stockholder and is in control of the management, policies, and operation of the company.

* This fact situation has been taken in digest form from the Federal Trade decision in American Business Survey, Inc., v FTC, FTC Docket 5021 in FTC Decisions, Vol. 43.

Through the use of the name "American Business Survey, Inc.," and the use of the name *American Business Survey* for its publication, the company has represented that its publication is a "magazine." There are no subscribers to the publication, and it is not offered for sale. The material contained in *American Business Survey* consists almost entirely of items concerning individuals, and is of interest only to a limited circle of their friends and acquaintances.

The method of operation of the company is substantially as follows: The necessary factual data are obtained from trade papers and other available sources. Mr. Strauss, who disguises himself under the name of James P. Wilson or John W. Hawthorne when functioning in a capacity other than president, will have an article prepared on the material. Once the article is written, he telephones the individual or company concerned, reads the article, and states that it is to appear in the next issue of the *American Business Survey*. He then endeavors to sell the individual a quantity of copies of that issue at 35¢ each. The proceeds of quantity sales so made constitute the entire income for the publication. Frequently more than a month elapses between the time of sale and the appearance of the publication. Undisguised advertising matter is included in *American Business Survey* in an effort to lend an air of authenticity to the publication.

Strauss claimed that he made no representation that his publication was a "magazine" and that it was principally a "publicity organ." Articles which he prepared were on subjects and in a form designed to appeal to specific individuals or specific companies. He said they were "think pieces" and were usually concocted on the basis of some brief headline or other scanty information. These articles would usually laud the companies extravagantly, or apologize for them and attempt to minimize the importance of violations of the law of which they might be guilty.

The records indicated that many persons or firms purchased copies of more than one issue. Mr. Strauss stated that he did not represent that his publication had a circulation of from 7,000 to 10,000 copies. Rather, he informed the potential purchasers that he printed from 7,000 to 10,000 copies of each issue and that such copies were distributed.

QUESTIONS

1. Is American Business Survey, Inc., a misleading name? Should the company be allowed to continue to use this name?
2. If *American Business Survey* was not considered a magazine, would that be sufficient evidence for the Federal Trade Commission to issue a cease and desist order?
3. Does Strauss have the right to use fictitious names (Wilson and Hawthorne) when functioning in different capacities, such as editor, author, or solicitor, in the company?
4. When Strauss gave the information that he printed from 7,000 to 10,000 copies of each issue, would that be considered as representing that his publication had a circulation of that number?
5. Should a publisher be permitted to use the title of *American Business Survey* when his publication does not have a definite circulation and it is questionable as to whether or not it is a business magazine within the general public understanding of such words?
6. Would the fact that the publication does not appear at regular intervals have any bearing on the decision?
7. The Federal Trade Commission dismissed the complaint against American Business Survey, Inc. Do you agree with its decision?

82 CLASSE SPECIALTY COMPANY

Pricing Under the Robinson-Patman Act

The Federal Trade Commission, upon the request of various retailers in Illinois and Missouri, decided to investigate the operations of the Classe Specialty Company to determine if the company had violated the Robinson-Patman Act.

The Classe Specialty Company is engaged in the business of manufacturing and selling crackers, wafers, pretzel sticks, mixes for pie crust, biscuits, bran and corn muffins, fruit cake, and certain related products. In the early 1930's a major portion of the total sales was in bulk, but by 1953, approximately 90 per cent of total production was represented by packaged goods. The packaged goods are all labeled with the specific brand names of the company.

Products are sold by Classe's own sales organization to chain stores, grocery stores, and other food stores. No formal contracts are

made with customers for the sale of products, other than upon salesmen's order blanks, which, when completed, are forwarded to the company's office for acceptance.

The company sells throughout the states of Illinois, Wisconsin, Missouri, and Iowa and has limited distribution in Michigan, Minnesota, and Indiana. The plant and home office are located in Chicago, where the company owns a modern brick and self-contained factory building with railroad siding facilities. The building is equipped with five 200-foot single traveling band ovens, together with mixing, sandwiching, and packing equipment.

Classe granted its salesmen a great deal of authority in quoting prices and allowed them to lower prices in order to secure new accounts, provided that by so doing competition was not lessened.

The salesmen were kept abreast of any changes in the price lists through a series of monthly meetings and a weekly sales bulletin in which other general information was included.

Because of Classe's policy, variation in prices among retailers occurred. A number of these cases were called to the attention of the Federal Trade Commission, so that in 1954 the Commission began to study the complaints. The following variations were among those listed:

1. In November, 1952, a salesman for Classe sold 100 fruit cakes to the Johnson store in Joliet at $1.38 per cake. The day he made the sale to Johnson, he called on the Ferguson store in the same city. Mr. Ferguson informed the salesman that he had a circular from a competitor of Classe which quoted a price of $1.25 for a comparable fruit cake.

The salesman checked the circular very carefully and decided that the fruit cake which the competitor was offering at $1.25 was the same quality and weight as the cake Classe was selling at $1.38. He told Mr. Ferguson that he would let him have Classe's cake for $1.25 also. Mr. Ferguson then placed an order with the salesman for 100 fruit cakes at $1.25.

2. On December 1, Classe's salesman in St. Louis, sold the Jepson store 250 five-ounce Plum Pudding Jars at 29¢ per jar. Later in the week when Classe's found that the market for plum pudding had softened, a new price of 24¢ per jar was quoted.

The salesman then sold 200 jars to the Jones store, located directly across the street from Jepson, at the new price of 24¢. When Jepson

complained about the reduction and asked for an adjustment to the lower price, Classe refused to make any concession. Classe's policy stated that once the order had been signed by the customer, no price adjustment could be made.

3. Before the Christmas season each year, Classe sent to the retailers a catalog in which were listed all the special Christmas items the company planned to offer. Such products as glazed fruits, hard candy, fruit cakes, plum pudding, and special wafers were included. Prices on all these items were given, and many of the customers ordered directly from the catalog.

Several of the customers, after they received the catalog, requested that the salesmen call on them to give them more information about the variety of Christmas products. When Classe insisted on charging these customers an extra 5 per cent above the price listed in the catalog, a number of the customers complained. Classe contended the company had to charge this extra amount because of the additional service given. On the other hand, the customers stated that because the salesmen who called upon them were the regular salesmen in the territory, no additional service was actually given.

4. In Minnesota, Classe did not sell direct but instead through a wholesaler in St. Paul. When this wholesaler discovered that he was being charged exactly the same prices as were the retailers in the states in which the company sold direct, he entered a complaint. The wholesaler contended that he was entitled to a "functional" discount because of the additional service he was giving to Classe. This wholesaler had an exclusive territory in Minnesota and distributed all Classe's products in the state.

5. On December 5, the company had immediately wired all salesmen when it lowered the price of plum pudding to 24¢. Because of the limited distribution of the company in Michigan it had only one salesman there. It was frequently difficult to contact him and, as a result, the wire which was sent on December 5, did not catch up with him until December 8. In the meantime, the salesman had made sales of plum pudding to ten retailers at the old price of 29¢. When this was called to the attention of Classe, the company refused to make any allowance to these retailers because of the policy of not making price adjustments once the order had been signed.

6. During the Christmas period, Classe had a cooperative advertising program under which the company agreed to pay a percentage

of the retailers' cost of the advertising featuring its products on the basis of the quantity of goods purchased at that season of the year. Under this schedule, the company progressively increased the allowance an additional 20 per cent for each additional $250 worth of Christmas merchandise purchased, up to a maximum of 60 per cent of advertising costs for purchases of $750 or more. The schedule was as follows:

COOPERATIVE

Christmas Advertising Allowances	*Allowance*
Purchases under $250.00	None
Purchases from $250.00 to $499.00	20%
Purchases from $500.00 to $749.99	40%
Purchases over $750.00	60%

Mr. Oswald, a small retailer, complained that the above schedule was discriminatory. He stated that he never could purchase more than $250 to $300 of Christmas merchandise each year, whereas the large chain located in the same section of the city would always buy more than $750.

QUESTIONS

1. Analyze the above situations under the Robinson-Patman Act.
2. In what instances would the Federal Trade Commission be justified in issuing "cease and desist" orders?
3. On what bases might Classe show that its actions in each case did not lessen price competition?
4. For the best interest of society, to what extent should the Federal Trade Commission go in limiting such activities as those listed above?

83 THE BORAX COMBINATION *

EVALUATING THE MONOPOLISTIC POSITION OF A COMBINATION

Borax Consolidated, Ltd., Pacific Coast Borax Company, United States Borax Company, American Potash & Chemical Corporation, Borax and Chemicals, Ltd., and the Three Elephant Borax Corpora-

* This fact situation has been taken in digest form from the Civil Action No. 23690-G of the District Court of the United States for the Northern District of California, Southern Division.

tion are charged with conspiring to violate the Sherman Anti-trust Act by monopolizing virtually the entire world supply of borax.

Crude borates are the chief source of borax. Approximately 95 per cent of the world's deposits, active and inactive, of commercially valuable crude borates is located in California and the southwest section of Nevada; all the world's deposits of kernite are located in Kern County, California. Although there are approximately sixty known crude borates in the world, only four contain sufficient boron oxide to warrant commercial exploitation. These are kernite, tincal, colemanite, and ulexite.

The commercial value of borate ores is largely determined by the boron oxide content, which averages 50 per cent in the best crude ore, kernite. Colemanite is a calcium borate, tincal and kernite are sodium borates. Ulexite is a mixture of calcium and sodium borate. Kernite, the most important of the borate ores, is found only in the United States; all the known United States deposits of kernite are now owned by Borax Consolidated, Ltd., or its subsidiary, United States Borax Company.

The other source of borax is lake brine. More than 99 per cent is extracted from Searles Lake, located in the Mojave Desert in San Bernardino County, California. Approximately one ton of borax is obtained as a co-product of two tons of muriate of potash. This process produces no crude borate. Less than one per cent is extracted from Owens Lake, Inyo County, California.

Uses

The properties of borax to which its principal uses are related are its strong fluxing ability (that is, its power to promote the fusion of metals or minerals), its mild antiseptic properties, and its mild alkaline properties (which make it useful as a buffering agent to neutralize acids or bases without changing their original acidity or alkalinity). Borax and boric acid have many uses: They are important ingredients in the manufacture of enamels for coating such metalware as bathtubs, sinks, and plumbing fixtures; in the manufacture of glass, borax and boric acid act as fluxes to promote the distribution of the other constituents of the glass; large quantities of borax and boric acid are used in the production of glazes for tiles, earthenware, and china; borax is used in aviation instrument panels and in the

manufacture of explosives, particularly magnesium bombs; as an abrasive, boron carbide is second in hardness only to the diamond, and is also an economical source of boron in metallurgical processes, both as a source of boron for alloys and as a powerful deoxidizing agent; borax and boric acid are also widely used in pharmaceutical preparations and cosmetics because of their mild antiseptic and detergent properties.

Control of Industry

Since 1929 the world trade in borax and borax products has been completely dominated and controlled by Borax Consolidated, Ltd., and the American Potash & Chemical Corporation and their subsidiaries. The former controls 95 per cent of the world production of borax from crude borates, including 100 per cent of the world production from kernite; the latter controls approximately 90 per cent of the world production of borax derived from lake brines.

Conspiracy to Monopolize

The complaint specified that, since 1929, the six companies conspired to monopolize the interstate and foreign trade and commerce in the mining, processing, manufacture, distribution, and sale of crude borates, refined borax, and boric acid, which conspiracy was in violation. It went on to state that they agreed:

1. to acquire control of approximately 95 per cent of the world's known deposits of crude borates, including approximately 100 per cent of sodium borate (kernite and tincal) deposits.
2. to acquire by lease or purchase approximately 90 per cent of the world's known lake brines from which borax may be extracted.
3. to purchase refining facilities of all competitors who also own deposits of crude borates.
4. to dismantle and close all refining facilities and to close all mines purchased from competitors who work deposits of crude borates.
5. to withhold from the market all colemanite ore, where such ore would compete with kernite.
6. to permit two United States concerns to produce, refine, buy, and sell approximately 5 per cent of the world's supply of re-

fined borax and boric acid on terms dictated by the companies with respect to customers and markets.

7. to refuse to sell crude borates, refined borax, and boric acid to customers of any competing company.
8. to refuse to sell crude borates, refined borax, and boric acid for export or resale.
9. to refuse to sell refined borax for packaging by independent distributors.
10. to restrict the selling and distributing of packaged borax to Borax Consolidated, Ltd., or its subsidiaries.

Companies' Rejoinder

In answer to the complaint, the six companies pointed out that there was no coercion on their part in dealing with other manufacturers and distributors. Because the product was standardized and there were only a few sellers, they were well aware of all the influencing marketing factors.

At the same time, it was their belief that new deposits of borates would be discovered under the pressure of increasing demand. Furthermore, the group brought out that boron is one of the first seven or eight most abundant elements in the earth and that lake brines exist in Lake Inder in Russia, in several lakes in Mexico, and in other sections of the world. There are some deposits in Turkey and in South America, where labor is cheap, but the cost of exporting is high.

The companies also emphasized that a break-up of the present properties would lead to mining and extraction waste—uneconomic and unwise from the standpoint of geology and natural resources. In the long run, prices to the consumers would be higher.

QUESTIONS

1. In the case of a standardized product, such as borax, is the price charged by the various producers likely to be uniform?
2. Under the following conditions, what would be the effect upon prices of an agreement among producers of borax not to solicit each other's customers:

(a) No agreement to refuse to accept business of another's customers voluntarily offered?

(b) No restraint upon the solicitation of new business?

(c) A rapidly expanding demand whereby domestic consumption increases from 75,000 tons to 150,000 tons?

3. What effect would price fixing, allocation of markets, quotas, and the like in foreign countries have upon prices charged in the United States for borax?
4. Since borax may be produced from three original sources (brines, deposits, or fumaroles), can one producer who controls all the mineral deposits have a monopoly or control of the market when he has no control of the other sources?
5. Would the control of borax deposits without control of the refineries be adequate to regulate the price in the consumer's market?
6. Do you feel that action should be taken under the Sherman Antitrust Act? If so, what?

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