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SALES MANAGEMENT

POLICIES AND PROCEDURES

By D. M. Phelps, Ph.D.

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1953

RICHARD D. IRWIN, INC.

HOMEWOOD, ILLINOIS

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PREFACE

THE great complexity of the marketing process through which goods and services become available to consumers is not recognized by the layman and, perhaps, not fully by marketing practitioners and teachers. Nor is there full recognition of the extent of the planning and execution required to have goods and services which meet consumers' needs and desires readily available to them. These tasks of planning goods and services and of getting them to consumers have increased greatly during the twentieth century. Their performance has been made possible only through the driving force of management exercised in a free-enterprise economy. It is management in the field of marketing with which this book is concerned.

The scope and importance of the managerial aspects of marketing within the industrial business enterprise have increased steadily during recent decades. Marketing executives have increased both the breadth and the depth of their responsibility and authority, particularly in the areas of product development and pricing. These functions, it has become recognized, cannot be performed effectively without greater attention to investigation of the market for which marketing executives must assume responsibility. The performance of these functions by marketing executives will bring about a greater measure of adjustment between the products and services offered and the characteristics of demand. Thus will important social and economic objectives be more fully achieved.

The purpose of this book is to present a comprehensive analysis of the problems encountered by marketing vice-presidents and sales managers in modern business enterprises and to discuss the policies that may be followed and the procedures that may be used in their solution. The plan of the book is simple, yet logical. The discussion proceeds from planning the product to investigation of the market, pricing, planning the sales effort, management of sales and service personnel, and, partially in summary, to control of sales operations. Each of these topics is of sufficient importance to justify treatment in a separate volume. Any comprehensive treatment of management in the field of marketing must therefore be in the nature of an introduction to the subject. Nevertheless, it is necessary to see the subject as a whole before proceeding to more specialized study of its various phases.

An attempt has been made to give adequate attention to each topic in view of its importance and the difficulties encountered in its comprehension. Discussion on certain topics has been limited because they are given considerable attention in basic marketing texts—e.g., the selection of channels of distribution. Attention has not been given to inventory control and the physical distribution of merchandise because the problems involved are of somewhat different character than others in marketing and because of time and space limitations.

The case or problem method of teaching marketing subjects has been successful in stimulating the thinking of students and in extending student participation in classroom discussions. For those who wish to use such material, questions, problems, and short cases have been included in this textbook. Because of space limitations, longer cases could not be included, but they are readily available from business concerns and from books that center attention on the case or problem method of instruction.

Many people and organizations have contributed either directly or indirectly to the preparation of this book. Among organizations, the American Management Association, the Policyholders Service Bureau of the Metropolitan Life Insurance Company, and the National Industrial Conference Board, Inc., have been most helpful. Many sales and research executives have placed both their time and materials at my disposal. Among them, I am particularly indebted to Ray R. Eppert, Willis E. Morgan, and Harold F. Waite of the Burroughs Adding Machine Company; Kevin J. Solon of Owens-Illinois Glass Company; Ralph Starr Butler, formerly of General Foods Corporation; J. M. Johns of Libbey-Owens-Ford Glass Company; E. G. Bowers and Ronald A. Demmer of Kelvinator Division, Nash-Kelvinator Corporation; Louis P. Butenschoen, The Dow Chemical Company; D. C. Hooper, Westinghouse Electric Corporation; K. R. Beardslee, Carboloy Company, Inc.; and William C. Truehaft, The Tremco Manufacturing Company.

One of my colleagues at the University of Michigan, Professor Clare E. Griffin, has been a constant source of aid and encouragement to me since student days. Other colleagues—Professors Donald R. G. Cowan, Charles N. Davisson, Edgar H. Gault, and Messrs. Stewart H. Rewoldt and Joseph W. Newman—read parts of the manuscript and offered many excellent suggestions for its improvement. Professor Harvey W. Huegy of the University of Illinois placed materials on pricing at my disposal. The greatest assistance was given by Professor J. Howard Westing of the University of Wisconsin, who read and edited a large portion of the manuscript. His thorough knowledge of the marketing field and his keen perception of weaknesses in analysis were almost invaluable to me. The contribution of these people in the teaching profession is gratefully acknowledged. Finally,

my appreciation is due, above all, to my wife, Mildred Hendrick Phelps, for her unfailing patience and encouragement in all of my professional activities.

DUDLEY MAYNARD PHELPS

UNIVERSITY OF MICHIGAN
May 31, 1951

TABLE OF CONTENTS

PART I. INTRODUCTION

CHAPTER PAGE

I. THE FIELD OF SALES MANAGEMENT 1

DEFINITION OF SALES MANAGEMENT: Relationship of Sales Management to Marketing. Aspects to Be Considered. FUNCTIONS PERFORMED IN SALES MANAGEMENT: Planning. Execution. FURTHER CLASSIFICATION OF WORK IN SALES MANAGEMENT. GROWTH OF SALES MANAGEMENT: Concentration of Production. Increase in Distinctive Nonstaple Products. Manufacturers' Control of Distribution. RESTRICTIONS ON SALES MANAGEMENT: Company Policies and Commitments. Industry Policies and Practices. Government Regulations. Public Interest.

PART II. PLANNING THE PRODUCT

II. PRODUCT DEVELOPMENT 17

INTRODUCTION: The Merchandising Function. Responsibility for Product Planning. PRODUCT DEVELOPMENT: Extent of Product Development in Recent Years. General Reasons for Product Development. Specific Incentives for Product Development. Sources of Product Ideas. Problem of Design Piracy. Procedure in Product Development. CONSTITUTION OF A LINE OF PRODUCTS: Determining the Number of Varieties. Reasons for Line Expansion. Limitations to Line Expansion. Summary. TIMING OF NEW PRODUCT INTRODUCTION.

III. PRODUCT AND MARKET TESTING 58

Technical Testing versus Consumer Testing of Products. Significance of Product Testing. TECHNICAL TESTING: Analysis versus Performance Testing. The Use of Independent Testing Laboratories. CONSUMER TESTING: Problems in Consumer Testing. Procedures Used in Pre-testing. Preliminary Market Testing. Post-testing. FINAL COMMENTS.

IV. BRANDS AND TRADE-MARKS 92

Brands versus Trade-Marks and Other Marks. Types of Brands. Objectives in Branding. Specific Branding Problems. Selection of Brand Names, Trade-Marks, and Other Marks. Coverage of Brands. Competition with Distributors'

CHAPTER PAGE

Brands. PROTECTION OF TRADE-MARKS AND OTHER MARKS: Registrable Marks. Principal versus Supplemental Register. Restrictions on Registration. Procedure in Registration. Advantages of Registration. Other Provisions of the Lanham Act. Concluding Remarks.

V. PACKAGING THE PRODUCT 136

Basic Objectives in Packaging. Complexity of the Packaging Problem. Timing of Package Changes. Objectives in Repackaging. Initial Step in Repackaging. Questions of Organization and Procedure.

VI. LABELS AND LABELING 159

RECENT EMPHASIS ON LABELING. "INFORMATIVE" LABELING. MANUFACTURERS' ATTITUDE TOWARD INFORMATIVE LABELING. MANUFACTURERS' LABELING PROBLEMS: Problem of Product Evaluation. Problem of Selection—Information for Labels. Problem of Presentation. Advantages of More Effective Labeling. SUMMARY.

PART III. INVESTIGATION OF THE MARKET

VII. QUANTITATIVE MARKET ANALYSIS OBJECTIVES . 181

Variation in Importance by Product Type. SPECIFIC OBJECTIVES OF QUANTITATIVE ANALYSIS: To Determine Whether to Produce a Product. To Determine the Order of Market Development. To Decide Whether to Expand Production Capacity. To Determine the Location of New Production Capacity. To Aid in Assignment and Control of Salesmen. To Allocate Advertising and Other Sales Promotional Effort. To Determine the Effectiveness of Sales Effort. SUMMARY.

VIII. DETERMINATION OF MARKET POTENTIALS, SALES POTENTIALS, AND SALES QUOTAS 196

QUESTIONS OF DEFINITION. NATURE OF THE TASK. IDENTIFICATION OF PRODUCT USES AND POTENTIAL USERS. BASIC PROCEDURES FOR DETERMINING MARKET POTENTIALS. INDIVIDUAL UNIT FORECAST PROCEDURE: An Illustrative Case—Industrial Equipment. Individual Unit Forecasts for Consumers' Goods. Appraisal of the Method. OVER-ALL FORECAST PROCEDURE: Forecast of Business Conditions. Estimate of Market Potential. Estimate of Sales Potential. Breakdown of the Sales Potential to Territorial Units. SINGLE-FACTOR INDEX METHODS: Sales and Purchase Data.

IX. DETERMINATION OF MARKET POTENTIALS, SALES POTENTIALS, AND SALES QUOTAS (*Continued*) 231

Product-in-Use Data. Corollary Data. Objective Factors Data. Application—Single-Factor Index Method. MUL-

CHAPTER PAGE

TIPLE-FACTOR INDEX METHODS: Arbitrary Factors or Percentage Average Method. Multiple Correlation. Interpretation and Use of Multiple-Factor Indexes. Summary. DETERMINATION OF SALES QUOTAS.

PART IV. PRICING THE PRODUCT

X. PRICING AND PRICE POLICIES 267

GENERAL CONSIDERATIONS IN PRICING: Independence in Pricing Based upon Product Differentiation. Responsibility for Pricing. Objectives in Pricing. Approach to Pricing Problems. The Environment of Price Determination. Classification of Pricing Problems. FACTORS INFLUENCING PRICE DECISIONS: The Nature of the Market. The Influence of Cost. The Desired Rate of Return on Investment. The Influence of Competition. Marketing Policies and Methods. Considerations of Public Policy. THE NATURE OF THE PRICING PROCESS: Methods of Approach. PRICING OF NEW PRODUCTS: Nature of the Initial Pricing Problem. Uncertainty of Competitive Position. Steps in Initial Pricing of New Products. Pricing Policies for New Products. PRODUCT-LINE PRICING: Analysis of the Problem. Approaches to the Problem. Pricing Based upon Variations in a Single Product. PRICING OF REPLACEMENT PARTS. SUMMARY AND FINAL COMMENTS.

XI. ADMINISTRATION OF PRICES 317

PRICE VARIATIONS: General Objectives of Price Variations. POLICIES IN REFERENCE TO PRICE VARIATIONS: A Variable-Price Policy. A Nonvariable-Price Policy. A Single-Price Policy. CHANNELS OF PRICE VARIATION: Price Bargaining—Negotiated versus Established Prices. Leasing as a Pricing Device. Discounts and Discount Policy. Quantity Discounts. Trade Discounts. Cash Discounts. Promotional Allowances. Legality of Discounts. Delivered Price Systems. Short-Range Price Variations. PRICING ARRANGEMENTS: Notification of Price Changes. Protection against Price Reduction. Resale Price Maintenance.

PART V. PLANNING THE SALES EFFORT

XII. PLANNING THE SALES ORGANIZATION 363

THE NATURE OF ORGANIZATION. SOME PROBLEMS OF ORGANIZATION: Division of Responsibility and Authority. Delegation of Responsibility and Authority. Co-ordination. Span of Supervision and Control. Organizational Stability and Flexibility. Development and Maintenance of Morale. REASONS FOR VARIATION IN SALES ORGANIZATIONS. SELECTION OF CHANNELS OF DISTRIBUTION: How the Problem Arises. Factors Affecting Decisions on Distribution Channels. Approaches to the Problem of Selection. Selectivity in Distri-

CHAPTER PAGE

bution Channels. Policy on Market Coverage. STRUCTURE OF BUSINESS ORGANIZATIONS. STRUCTURE OF SALES ORGANIZATION: Departmentalization at the Home Office. Departmentalization of Subsidiaries and Field Offices.

XIII. PLANNING THE SALES ORGANIZATION (*Continued*) 397

Functional Breakdown of the Sales Task. DEPARTMENTAL RELATIONSHIPS: Intra- versus Interdepartmental Relationships. Sales and Advertising. Sales and Service. Sales and Production. Sales and Public Relations. Sales—Credit and Collections. Sales and Personnel. Appraisal of a Sales Organization. Final Comments.

XIV. PLANNING THE SALES PROGRAM 417

NATURE OF THE PROBLEM: Difficulty of the Task. Lack of Ready-Made Solutions. THE SELECTION AND TESTING OF SALES METHODS: Bases of Decisions on Sales Methods. Selection and Testing by Type of Method. Personal Solicitation. Advertising. Other Promotional Methods. Miscellaneous. DETERMINATION OF THE SALES EXPENSE BUDGET: Objectives of Sales Expense Budgeting. Budget Based upon Sales Potential. Length of the Budget Period. Procedural Steps in Budget Determination. Administration or Follow-up. SALES PROGRAM PLANNING—NEW PRODUCTS: Dissimilarity in Conditions. Expense Budgeting for New Products. Planning Market Development. SUMMARY.

XV. WARRANTY AND SERVICE POLICIES 460

Why the Buyer Needs Assurance before Purchase. Manufacturers' Attitude toward Assurance. How Assurance Is Given. Promotional versus Protective Aspects of Warranties. SERVICE AND SERVICE POLICIES: Nature of Service. Promotional versus Protective Aspects of Service. Factors Which Affect the Service Problem. Charging for Service Work. Organization and Administration of Service. Suggestions for a Service Policy.

XVI. ADMINISTRATION OF SALES PROGRAMS AND CAMPAIGNS 498

SCHEDULING SALES PROGRAMS AND CAMPAIGNS: An Illustration—Sales Campaign Scheduling—The Studebaker Corporation. Nature of the Scheduling Problem. DELEGATION OF RESPONSIBILITY. ADMINISTRATIVE CO-ORDINATION: Essentials of the Co-ordinative Process. CO-OPERATION WITH DISTRIBUTIVE OUTLETS: Forms of Co-operation with Distributive Outlets. Means for Securing Co-operation from Distributive Outlets. Restrictions on Attempts to Secure Distributors' Co-operation.

PART VI. MANAGEMENT OF SALES AND SERVICE PERSONNEL

CHAPTER PAGE

XVII. MANAGEMENT OF SALES AND SERVICE PERSONNEL 527

A Specialized Area—The Field of Personnel Management. Interrelation of Activities. Importance of Managerial Function. Responsibility of Management toward Sales Personnel. The Question of Unionization. A "Sales Manager's Creed." The Desirability of Contracts with Salesmen. Improvement in Management of Sales Personnel.

XVIII. RECRUITMENT AND SELECTION OF SALES PERSONNEL 540

RESPONSIBILITY FOR RECRUITMENT AND SELECTION. NATURE OF THE PROBLEM. JOB ANALYSIS: Making Job Analyses. Variation in Sales Jobs. DETERMINATION OF NECESSARY CHARACTERISTICS: Complexity of the Task. Characteristics by Type. General Characteristics Needed. Characteristics Based on Experience. Educational Characteristics. Characteristics of Successful Salesmen. RECRUITMENT OF SALES PERSONNEL: Sources of Sales Personnel. The Company Itself. Other Companies. Educational Institutions. Advertising. Company Salesmen and Sales Supervisors. Miscellaneous Sources.

XIX. RECRUITMENT AND SELECTION OF SALES PERSONNEL (*Continued*) 564

DETERMINATION OF APPLICANTS' CHARACTERISTICS: The Application for Interview Blank. The Interview. The Application Blank or Personal History Record. References. Physical Examinations. Psychological Testing—An Aid in Selection? SUMMARY.

XX. TRAINING OF SALES PERSONNEL 600

OBJECTIVES OF TRAINING. VARIATION IN TRAINING BETWEEN COMPANIES. NATURE OF THE TRAINING PROBLEM: Contributions of Psychology. ORGANIZATION FOR TRAINING: Centered Responsibility. Location in Organization. Responsibility of Training Departments. Questions of Staff.

XXI. DEVELOPMENT OF A TRAINING PROGRAM . . . 617

Steps in Program Development. Determination of Basic Objectives. Determination of Organizational Structure. Assignment of Responsibility for Program Development. Preliminary Analysis. Conduct of Research. Determination of Specific Objectives. Content of Training Programs. Selection of Methods. Evaluation of Results.

XXII. SUPERVISION OF SALESMEN 661

Nature of the Problem. Reasons for Field Supervision. Specific Tasks of Field Supervisors. Amount of Sales Supervi-

CHAPTER PAGE

sion Required. Responsibility for Field Supervision. Selection and Training of Field Supervisors. Methods of Field Supervision. Essentials of Field Supervision. SUMMARY.

XXIII. SALESMEN'S REPORTS 681

SALESMEN'S ACTIVITY REPORTS: Variation in Need and Use. Duality of Objectives. Types of Salesmen's Reports. Salesmen's Attitude toward Reports. Criteria for Judging Reporting Systems. CONTROL OF SALESMEN'S EXPENSES: Objectives of an Expense Control Plan. Expense Control Methods. SUMMARY.

XXIV. STIMULATION OF THE SALES FORCE 707

SALES CONVENTIONS AND CONFERENCES: National versus Regional Conventions. Content of Convention Programs. Methods and Procedures. Planning the Convention. SALES CONTESTS: Objectives of Sales Contests. Variables in Contest Structure. Criteria for Judging Contests. Criticism of Contests. Contests for Distributors' Salesmen. OTHER MEANS OF STIMULATION: Sales Quotas for Incentive Purposes. Incentive Compensation. Prospects of Promotion.

XXV. SALESMEN'S ASSIGNMENTS: DETERMINATION OF SALES TERRITORIES 729

NATURE OF A SALES TERRITORY. OBJECTIVES OF TERRITORIAL ASSIGNMENTS. DETERMINATION OF SALES TERRITORIES: Nature of the Problem. Establishment of Basic Territories. Factors That Modify Basic Territories. Boundaries of Sales Territories. REVISION OF SALES TERRITORIES: Reasons for Revision. Problems of Management. Effect on Salesmen. Procedure for Revision of Territories. Final Comments.

XXVI. SALESMEN'S ASSIGNMENTS: DISTRIBUTION OF TIME AND EFFORT 753

BASIC ASSIGNMENTS: Types of Work Assignment. Types of Product Assignment. Assignments by Type and Size of Customer. TIME AND JOB ANALYSES. TRANSPORTATION, ROUTING, AND SCHEDULING: Routing Problems and Policies. Automotive Transportation Problems and Policies.

XXVII. EVALUATION OF SALESMEN'S PERFORMANCE . . 780

OBJECTIVES OF EVALUATION. DIFFICULTY OF THE EVALUATION TASK. FACTORS AFFECTING SALES PERFORMANCE: Potentiality for Purchases. Physical Differences in Territories. Competition. Variation in Aid Given. Other Factors Affecting Sales Performance. Summary. CLASSIFICATION OF BASIC METHODS: Single Base or Composite Unit Related to an Average or Group Standard. Ratios between Two Variables. Personal Observation by Management. PERFORMANCE EVAL-

CHAPTER PAGE

UATION THROUGH SALES QUOTAS: Historical Perspective on Quotas. Prevalence in Use. Variations in Quotas. Objectives of Sales Quotas. Administration of Sales Quotas. PERFORMANCE EVALUATION THROUGH EXPENSE BUDGETS. SUMMARY.

XXVIII. COMPENSATION OF SELLING AND SUPERVISORY FORCES 815

COMPENSATION AND THE LABOR MARKET. COMPENSATION POLICIES. THE PROBLEMS OF MANAGEMENT. DESIRABLE CHARACTERISTICS OF A COMPENSATION PLAN. COMPENSATION PLANS IN USE: Straight Salary. Commission Plans. Compensation through Bonus. Compensation Based on Profits. Combination Plans. Use of More than One Plan. Adaptation of Plans to Specific Situations. COMPENSATION AND EXPENSE: Compensation of Supervisors and Branch Managers. Employee Benefits—Pensions, Insurance.

PART VII. CONTROL OF SALES OPERATIONS

XXIX. CONTROL OF SALES OPERATIONS 857

OBJECTIVES OF CONTROL. PROBLEMS OF CONTROL. MEANS OF CONTROL: Control through Policies. Volume Controls. Margin Controls. Expense Control through Budgeting. Expense Control through Distribution Cost Accounting. FACTS NEEDED FOR CONTROL PURPOSES: Sales Analysis. Expenditure Analysis. Sales-Expenditure Comparisons. REQUISITES OF CONTROL SYSTEMS.

APPENDIX: EXTRACT FROM SECTION 2 OF CLAYTON ACT: COMPLETE TEXT, ROBINSON-PATMAN ACT . 885

INDEX 889

PART I

INTRODUCTION

Chapter I

THE FIELD OF SALES MANAGEMENT

WHEN an attempt is made to delimit the field of sales management, numerous difficulties immediately appear because of a pronounced variation in concept and practice. Such variations are not unusual, however, for they appear in any situation where a broader subject is divided into parts for purposes of more detailed analysis or for convenience in instruction, and where performance is by departmental organizations which persist without change in form despite changes in concepts by practitioners and teachers. These difficulties in establishing boundaries for the field of sales management are due, not only to the fact that the fields of knowledge are interrelated, that the lines of demarcation are always indistinct and controversial, but also to the comparative recency of study in the broader field of business administration and, particularly, of study in the field of marketing.

DEFINITION OF SALES MANAGEMENT

Sales management is a part of the broader field of marketing, which in turn, as the economist sees it, is a part of production. "Production" to the theoretical economist means the creation of utilities. The production process does not cease until goods, desired by consumers, are in their hands ready for use. While the creation of form utility is what we generally think of as "production," there are also time, place, and ownership utilities which are created through marketing. Time and place utilities are created by the storage of goods until they are needed by consumers and by the movement of such goods in the proper quantities to various locations in the market. Ownership utility is created by the transfer of goods from the hands of persons who have no need of them to other persons who do have such need.

Relationship of Sales Management to Marketing

"Marketing" has been defined as including all business activities involved in the flow of goods and services from producers to consumers. This definition is not sufficiently comprehensive, since marketing also includes certain planning activities, the objective of which is to bring about an adjustment of product to the characteristics of demand. This type of activity finds expression in planning for product development, product and market testing, and other activities of a merchandising character which are necessary in order to determine the nature of the product to be produced and the form in which it will be placed upon the market. Marketing executives, because of their greater contact with consumers' needs and desires, are assuming to a greater extent the responsibility for planning the form which products will take, and thus are participating in the creation of form utility. In less theoretical parlance, the function—that is, the specialized activity—of sales organizations is to help plan the product which will later be produced, and to plan and put into effect the activities necessary to place goods in consumption channels.

The field of marketing also includes advertising, retailing, wholesaling, and other subjects, in addition to sales management. But, to a greater extent than these others, sales management is coextensive with the broader field, although far from identical. In the teaching of marketing as such, questions regarding its historical development, the nature of marketing institutions, and their social effectiveness are much in the foreground. But, in contrast, marketing may be approached from its managerial side, and then it becomes sales management. Therefore, the difference between the two is largely one of approach rather than one of kind. "*Sales management*" *may thus be defined as that part of the field of management which concerns itself with the managerial aspects of marketing.* Perhaps, in view of this broad definition, this area should be designated as marketing management. Admittedly, this is a broad concept of what the field should include. Some people would reserve the term "sales management" for those activities related to control and supervision of the sales force.[1] A reduction of the area included, in this instance, gives precision to the boundaries of the field. Still such a limitation is quite unrealistic if thought of in connection with the responsibilities habitually assumed by sales executives. Therefore, the broader concept of the field of sales management is the one here accepted.

Aspects to Be Considered

For purposes of this volume, a lesser range of subject matter will be included than might be expected from the preceding discussion.

[1] See "Report of the Definitions Committee," *Journal of Marketing*, Vol. XIII, No. 2 (October, 1948), pp. 202–17.

Courses in marketing do not confine themselves to a social or an institutional approach. Many of the managerial aspects of marketing are considered, some of them in great detail. For instance, the selection of channels of distribution for various types of product is featured in all marketing courses. Other aspects are given a much less detailed treatment; and still others, by informal agreement, are reserved for courses in sales management, advertising, or retailing. In fact, the course in marketing principles is usually considered a survey course which covers much of the entire field but with the expectation that other courses will follow which will, in more detail, cover many of the same topics. But inasmuch as certain managerial problems, particularly the selection of channels of distribution, are considered so fully in marketing courses, they will be given relatively little attention in this volume.

The problems of management in the marketing of raw materials and agricultural products are, by strict definition, embraced in the field of sales management. But these problems are likewise treated with reasonable adequacy in marketing courses. Furthermore, they need less attention than problems involved in the marketing of manufactured products. This is because the strictly managerial aspects of marketing agricultural products and raw materials are relatively few and unimportant. Problems of packaging and branding, of demand creation, and of pricing do not arise for some products; and the latitude for the exercise of managerial functions in others is considerably circumscribed. There is, of course, a limited but admittedly increasing group of agricultural products which are treated as distinctive commodities and thus present practically all of the managerial problems found in the marketing of manufactured products. Nevertheless, no attempt will be made to include in this treatise a discussion of the sales management problems which have particular reference to agricultural products and raw materials.

Advertising, retailing, export sales management, and market analysis are likewise, by strict definition, in part sales management. Yet each, because it embodies some particularly important and difficult problems and techniques not encountered elsewhere, or encountered to a lesser degree, is habitually studied in specialized courses. Advertising is a tool of management which may be used in greater or lesser amounts and in a myriad of ways. Frequently it is used as a more acceptable substitute for other factors, such as personal solicitation. Here, through the possibility of choice, the managerial element is uppermost; and thus a discussion of advertising, not in its technical phases, but as it fits into the general management picture, must be included, although a more detailed treatment should be reserved for specialized courses. Market research and analysis occupies much the same position. When done by business concerns, it is a part of sales management; yet a detailed treatment of procedures and techniques would

unnecessarily encumber a sales management textbook and thus should be reserved for more specialized treatment elsewhere.

Retailing and export sales management present another contrast. Although, quite evidently, each is concerned with managerial aspects of marketing and therefore is comprehended within the sales management definition, neither is a tool of management, as is advertising. Retailing is marketing at the last level in the chain of intermediaries extending toward the consumer and, because of this fact, presents many peculiar problems not encountered elsewhere. Export sales management likewise presents many peculiar problems. It is sales management as we know it in the domestic field plus many complicating factors, among which are those connected with foreign exchange, ocean transportation, tariffs, different language, and the need to plan for the adaptation of products to the demand characteristics of other peoples. Although much in this discussion of sales management will have application to retailing, and still more to export selling, no attempt will be made to include in this book a discussion of the specialized problems encountered in either of these two fields.

As a result of this process of delimitation, there remain the managerial aspects of marketing at the producer and wholesale levels, but with omission or only a brief treatment of those subjects which are considered to be adequately treated in other marketing courses. Furthermore, in order to keep the volume within its proper sphere and within due bounds, little if any attention will be given to the special problems and techniques of related fields.

FUNCTIONS PERFORMED IN SALES MANAGEMENT

The preceding discussion suggests the initial functional breakdown in the field of sales management. The breakdown is that between planning and execution, or, as this is frequently expressed, between research and operation. The first is the work necessary to arrive at judicious decisions, while the second is the work necessary to put those decisions into effect. The function of planning can be broken down into two parts: (*a*) that of choice of alternative means and expenditures for reaching desired goals and (*b*) that of evaluation. These are associated functions, for the only importance which can reasonably be ascribed to evaluation of results from previous action is that such evaluation will make possible wiser choices later.[2] Execution from the managerial point of view may be broken down into three parts: those of assignment and review, of co-ordination, and of stimulation. Management must not only make assignments to various

[2] See Donald R. G. Cowan, "The Functions of Management in Marketing," *Annals of the American Academy of Political and Social Science*, Vol. CCXCVIII (May, 1940), p. 71.

parts of the home office sales organization, to the field organization, and to individuals but must also see that assignments are carried out acceptably through control devices or personal contact. Co-ordination must also be achieved to prevent complications such as duplication of effort and faulty timing, to keep all interested parties fully informed, and to provide the necessary stimulation of effort. Stimulation is needed for the maintenance of morale.

Planning

This distinction between planning and execution is a particularly relevant one in the field of sales management because the planning function has not been given sufficient attention by sales executives. The application of a scientific approach to sales problems has been the exception rather than the rule. Only within the past decade or so has there been evidence of substantial progress in the use of scientific methods and in the development of techniques for the solution of problems in sales management. Even yet, in the majority of sales organizations planning is a groping and uncertain procedure, and rule-of-thumb methods are habitually used. However, the idea of a scientific approach is taking hold rapidly, and sales executives are beginning to see that problems which were thought to defy analysis can be broken down successfully.

Among manufacturing executives the same situation prevailed around the turn of the century. Cost accounting as applied to manufacturing operations was then in its infancy. In all probability there was marked skepticism about the ability to break down joint costs and assign them on reasonable bases to work in process. Now cost accounting as applied to manufacturing operations is an accepted and somewhat standardized practice. About thirty years later, roughly two decades ago, distribution cost accounting became the subject of experimentation. The problems of cost analysis and assignment were, perhaps, even more difficult than in manufacturing, since a greater proportion of costs were of a joint nature. But the problem is yielding to analysis. An executive recently stated that his concern was now able to assign better than 80 per cent of sales costs to its products, whereas 60 per cent was thought to be the attainable maximum a few years ago. In view of the progress being made by many concerns in the solution of sales problems by scientific methods, planning in the future will be much less haphazard than it has been in the past, and, furthermore, such methods will be used by a larger proportion of sales organizations.

Alternative Means and Expenditures. The nature of the work performed by sales organizations, particularly the nature of the planning function, can be brought out more clearly by a somewhat theo-

retical discussion. The objective of sales organizations is a satisfactory volume of sales achieved at a reasonable cost. Now it is apparent that this objective might be achieved in numerous ways, some of them radically different from each other, others differing only in small details. These ways will be more or less effective and will have different costs. Moreover, they will be compounded of many different factors in differing proportions. In other words, the sales executive has many different things with which he can work to achieve his major objective, and his success will depend largely upon his ability to select and combine the right things to achieve sales volume at low cost.

Some of these means come to mind immediately, such as advertising, a field sales force, and a home-office sales organization. Various types of field sales organization may be used. A manufacturer may use his own retail stores to reach the final consumer directly, or he may work through wholesalers and retailers. He may work through a system of sales branches, or he may use a more centralized system. Product guarantees may be a part of the general combination of things which he uses, or, perhaps, price maintenance. Research is a tool frequently used. It may be featured through comparatively heavy expenditures, or it may be entirely neglected. Price itself may be used, in the sense that a low price, rather than costly sales promotion efforts, may largely be depended upon to secure a satisfactory sales volume. All these various factors are themselves subject to redivision, and thus combinations may be made of a multiplicity of factors. Advertising perhaps furnishes the best example. The executive in charge of marketing may use radio, newspaper, or direct-mail advertising, or, for that matter, all three. Or he may rely entirely on advertising in national publications, such as the *Saturday Evening Post*. Again, he may use billboards, streetcar signs, or trade publications. It is evident that, within the advertising field alone, there is plenty of room for choice and that the possible combinations are many.

Now these examples give some idea of the number of factors or tools which can be used by the sales executive, as well as the multiplicity of possible combinations. Each factor has its separate cost, and the extent to which each is used largely depends upon that cost. This is true whenever one factor can be substituted for another. Therefore, *all costs are alternative in nature*, inasmuch as other combinations can be used. Stated simply, the sales executive is always faced with many alternatives in deciding upon his means of selling. For example, if he is contemplating the expenditure of a given sum on direct mail advertising, he must compare the effects which the expenditure of a like sum will have if devoted to publication advertising, service work, or various other forms of sales promotion.

Evaluation. Because there are so many factors which the sales

executive may use, and thus so many possible combinations, the task of determining how effective the various combinations will be is essentially a difficult one. Moreover, experimentation to isolate the contribution in sales volume of each factor is even more difficult as sales volume is a joint result, and any one factor used alone might be entirely unproductive. At times, combinations can be tried out in a limited area, such as a city or a shopping area, and the results noted. Or two similar areas can be selected, and one factor varied while others are being held constant. For instance, direct-mail advertising may be used in one, and newspaper advertising in another, or perhaps no advertising at all. This is simply a testing of sales plans in order to determine their effectiveness before the plans are used over a wide area. Such information is highly necessary if the sales executive is to act rationally in deciding upon his expenditures for selling purposes. Any reasonable individual will attempt to foresee the result of an expenditure before he assumes the expense. Otherwise, his expenditures will be based on pure guesswork, and results will be entirely hit or miss. It is not that sales executives do not plan expenditures with results in mind, but that much of this planning has not been carefully done in the light of information which is, or might be, available.

Execution

Little in addition need be said about the functions of execution—assignment and review, co-ordination, and stimulation.

Assignment and Review. In modern business, specialization is the rule rather than the exception. Therefore, one of the principal functions in sales management is the delegation of responsibility and authority to subordinates, who may in turn exercise managerial functions by breaking the task down still further and then making assignments to others. Whoever makes the assignment must review and evaluate the work done.

Co-ordination. Even in only moderately large organizations the function of co-ordination assumes importance; and organizational devices such as committees, other group meetings, informal conferences between people with related responsibilities, and the distribution of reports as to action taken or contemplated are relied upon to achieve unity of effort. Co-ordination is also needed, particularly in sales management, to secure the correct timing of effort, since so much often depends upon meeting the time limits required in a carefully prepared schedule of promotional effort. The efforts of those people concerned with the physical distribution of a company's products, and with credit, must be well co-ordinated with those who are active in field selling, or relations with dealers will suffer. For instance, nothing is more destructive of dealer good will than the failure to extend the

time for payment of invoices or to make deliveries of merchandise which have been promised by salesmen. Promotion to create demand for a product without adequate stocks available for purchase obviously shows poor co-ordination between departments. It is the function of management to find ways of achieving co-ordination so that situations of this character will not arise.

Stimulation. A further function of management in the sales field, which is perhaps a separable one from the others mentioned, merits comment. It is the function of stimulating salesmen or dealers who handle the company's products to make the necessary degree of effort to dispose of merchandise. Sales executives in meetings of salesmen or of dealers have the task of arousing interest and enthusiasm. It is not enough that they fully understand the nature of the product and the utilities which it will give the consumer, or that they are willing to go through prescribed routines of routing, sales calls, and presentation of the product to the potential customer. They must have the will to engage in the necessary activities; and the stimulus can, in part, be provided by sales executives. Often, to the uninitiated, the praise of a company's products, the minimizing of obstacles to sales, and the insistence at sales conventions that "you can do it" seem greatly overdone. Experience has amply proved that such stimulus is helpful in disposing of goods. It is a function of sales management to provide this stimulus.

FURTHER CLASSIFICATION OF WORK IN SALES MANAGEMENT

For purposes of study, a more detailed classification of the work in sales management is needed than that afforded by the distinction between planning and performance. So now we proceed to a secondary breakdown—one of six parts which logically follow each other. The classification is as follows:

1. Planning the product
2. Investigation of the market
3. Pricing the product
4. Planning the sales effort
5. Management of sales and service personnel
6. Control of sales operations

It should be recognized that no one of these can be carried forward exclusively in time without reference to the others. They are mutually interrelated; for instance, the work of planning a sales program depends upon progress in the development of new products, pricing depends upon investigation of the market, and so on. But this breakdown, nevertheless, provides a reasonable basis for study of the field

of sales management. A further breakdown will be noted by reference to the index and to specific chapters.

GROWTH OF SALES MANAGEMENT

In our attempt to secure a fairly comprehensive picture of sales management at the outset, its growth characteristics, both absolute and relative to other managerial tasks, should receive at least passing attention. Largely as the result of technological progress, the sheer volume of goods produced over the past century has increased many-fold, and marketing activities have increased likewise. This much is obvious; but the managerial aspects of marketing have increased more than proportionately largely because of two conditions, namely, the concentration of production and the larger number of distinctive, nonstaple commodities in the total output.

Concentration of Production

Through concentration of production in order to achieve decreasing unit costs, there has been created a wider gap between the producer and the consumer. Thus the whole problem of market investigation, with its attendant difficulties and complexities, has come to the forefront in sales management. Other selling activities—such as contacting the potential buyer; planning and directing the sales effort; selecting, training, and managing the sales force; and the control of sales operations—all become more complex and are performed at greater cost when industry is concentrated geographically. These results of concentration of production apply only to consumers' goods, not to producers' goods. This is an important distinction, for concentration in production narrowed the market geographically for machinery, equipment, and industrial supplies, whereas it broadened the market for an individual producer of such products as household equipment and supplies. For many industrial products, location of the source of demand has become a less difficult problem than formerly; but other problems of market investigation, especially the timing of demand, are even more difficult than for consumers' goods.

Although few would dispute the assertion that the work of sales management has been increased both in volume and complexity by the concentration of industry, this assertion requires further examination. As we have seen, it does not hold true for industrial products used by other concerns for still further production. Nor should the fact be overlooked that concentration of industry produces urbanization, or concentration of population, and thus eases the task of making sales contacts. Furthermore, although the gap between the producer of consumers' goods and the consumer has surely been widened in a

physical sense, the means of bridging the gap have been improved, and almost beyond belief. New means of transportation and communication—such as the automobile and the airplane, which give mobility to the population, and the radio and television, which make possible appeals to many buyers—have in a very real sense narrowed the market. Without inventions such as these, the work involved in contacting and influencing potential buyers would be much greater than it is now. Thus, technological progress has resulted in a concentration of industry, which in turn has broadened the market for individual companies and widened the gap between producers and consumers. But it has likewise narrowed this gap by making possible the wide ownership of automobiles, radios, television, and publications, which are the instruments used, either directly or indirectly, by business concerns to contact and influence potential buyers.

Increase in Distinctive Nonstaple Products

The growth of sales management is in part a reflection of the changing character of the goods produced by American manufacturers. Distinctive nonstaple commodities now constitute a larger proportion of the total output than formerly. As a direct outgrowth of this change, practically all investigational and planning activities have taken on both additional importance and greater complexity. The nature of these products demands more careful attention to the product itself, investigation of the market, and planning for sales. Planning the product to keep it unusual and distinctive becomes a major task. The appearance of demand cannot be taken for granted; nor are all people potential buyers, as they are for many staple products. Thus the problems of finding the potential buyer and of devising means to influence him toward purchase assume greater importance. Even in agricultural production, this tendency toward a larger proportion of distinctive items is evident. Better grading and packaging have elevated the product of some producers to a semidistinctive level. This in itself constitutes work in the field of sales management. It likewise makes possible various forms of demand creation effort.

Manufacturers' Control of Distribution

Manufacturers, wholesalers, retailers, and other marketing intermediaries participate in the sales management task to a greater or lesser degree, depending upon numerous factors. Inasmuch as this treatise is mainly concerned with sales management at the manufacturer level, a variation in the participation of the manufacturer as contrasted with that of marketing intermediaries is of significance as a growth element. And such a variation—in fact, one of marked proportions—has taken place. Of all the historical tendencies in the field of marketing, no other is so distinctly apparent as the tendency for the manufacturer

to assume greater control over the distribution of his product; and with it has come a great increase in his sales management work. With the passage of time, it has become more and more apparent that manufacturers needed this control. The decreasing cost nature of production furnished a constant stimulus for additional volume. Furthermore, the manufacturer needed a continuous, assured volume if he was to operate with maximum effectiveness. Because these requirements of the manufacturer were not met satisfactorily through the efforts of the distributors of his product, he gradually assumed many of the functions previously performed, none too satisfactorily, by those distributors. His first step was to differentiate his product from that of other manufacturers through a change in the product itself, through branding, and, perhaps, through packaging. This was usually followed by advertising and other demand-creation efforts directed at the final consumer. In this way the manufacturer became more independent of the distributors of his products. The distributors were practically forced at times to carry products for which there was an established demand, and thus there was little possibility for them easily to shift demand from one manufacturer to another. Thus the manufacturer assumed the responsibility for increasing demand for his product; and, through relegating distributors to a position of lesser importance, he assured himself of a more continuous, stable demand.

After assuming additional responsibilities, the manufacturer has frequently found it desirable to do without the services of intermediaries and sell directly to retailers, perhaps even to final consumers. In such instances, sales management at the producer level embraces all of the managerial activities necessary to place a product in consumers' hands. At times manufacturers have been able to achieve much the same effect by instituting control measures over dealers. The relationship between automobile manufacturers and their dealers offers a case in point. The dealers are legally independent; but the manufacturer often "suggests" the service which shall be made available to owners of cars and trucks, the prices which shall be charged both for the car itself and for service, and the amount of repair parts which shall be kept on hand. Moreover, he often influences the sales methods which shall be used and often accepts responsibility for the selection and training of sales and service employees. To all intents and purposes, the dealership is treated much as if it were the manufacturer's own retail outlet. This illustration shows the extent to which some manufacturers assume the task of sales management through to the consumer, although marketing intermediaries are still retained.

RESTRICTIONS ON SALES MANAGEMENT

Our brief survey of the field of sales management would not be complete without a discussion of the general setting in which the man-

agerial function is forced to operate. Up to this point we have been concerned with a delineation of the field. Few comments have been made in regard to limitations on practice, but it should be recognized that those who are responsible for the marketing activities of a concern work in a context of restrictions and controls. Some of these are definitely prescribed by authority and thus cannot be changed readily. Others are in the nature of unwritten laws, but deviation from them may be equally unfortunate for the marketing executive, or even for his company. Basic changes, such as those discussed in the preceding section, may justifiably be considered as controls on the work of sales management because they condition that work in many different ways. In fact, there is probably no greater necessity for the sales executive than that he be constantly aware of such basic changes in the field of marketing, and of changes in the economic and social background which are responsible for them. Other controls are imposed by the individual company and its long-continued policies, by the industry of which it is a part, and by government. Enlightened public opinion, even though it has not been translated into legal restrictions, is the bulwark against certain sales practices and, in and of itself, constitutes a restrictive measure.

Company Policies and Commitments

Restrictions which have their origin in company history condition every sales executive's decisions. Either because of unfortunate experience in the past or the predilections of top executives, certain practices in regard to sales have become taboo; and in order to attain given objectives, substitutes must be found. Planning must be done in view of the whole context of company experience, of the ideas and prejudices of company executives, and of long-range commitments of various sorts. Major policies of long standing may be seriously questioned by present sales executives. Perhaps these men had nothing to do with the formation of such policies; still adherence is expected, and revision is difficult. There are likewise commitments in regard to personnel and physical properties. There is frequently the understanding that certain individuals are not to be fired, despite the fact that they have outlived their usefulness so far as the company is concerned. More often than otherwise, sales managers feel that they are burdened with some personnel. For reasons which appear none too sound, particularly to new executives, certain dealers and other distributors must be retained, although replacement by others would seem to be the more rational procedure. The fact that the company owns physical equipment of various sorts and is a party to long-term leases may likewise be a restrictive factor on freedom of action. All of these are a part of a more or less permanent structure in which the sales executive must work. If, in

view of his training and objectives, he finds company policies and commitments too restrictive, he is likely either to force adjustments or to make other business connections.

Industry Policies and Practices

Restrictions imposed by the industry of which a particular company is a part may be the result of formal agreements or of informal understandings, or they may be matters of trade practice. When restrictions are self-imposed, the presumption is that they are wanted, but, nevertheless, they condition the sales executive's task. Not infrequently a company will be unfavorable to an industry agreement but will think it advisable to go along with the group rather than to act independently. Trade practices exert much the same type of controlling influence. An expression to the effect that a company should or should not do certain things, because it is or is not general industry practice, is a very usual one. Furthermore, the thinking behind such an expression may or may not be based on sound reasoning. If the action contemplated is one which has proved to be inimical to the interests of the industry as a whole—such, for instance, as the giving of long-time guarantees on product—then a company should be controlled by that which might be termed "group judgment." On the other hand, a trade practice may be bad as well as good; and then independence of action, a refusal to suffer restriction imposed in error by an industry, is much in order.

Government Regulations

The most evident restrictive force on business is governmental authority. A great many of the controls exercised by government substantially affect sales management. Comparatively recent additions to restrictive measures are those contained in the Wheeler-Lea Amendment to the Federal Trade Commission Act, which attempts to prevent misrepresentation in advertising; the Robinson-Patman Act, which has as its objective the elimination of price discrimination; and the Supreme Court decision on the basing-point pricing system, which has cast considerable doubt on the legality of the practice of quoting delivered prices. These are expressions of a continuing movement to prevent practices which may result in monopoly, discrimination, misrepresentation, or competitive advantage by other unfair means. Other government regulations deal with standards of quantity, quality, packaging, and labeling. They are embodied in the pure food and drug laws and in the laws relating to weights and measures. With these and many other regulatory measures the sales manager must conform. Such government controls, as well as the restrictions imposed by the com-

pany and by the industry of which it is a part, largely constitute the complicated structure in which the work of sales management must be carried forward.

Public Interest

Finally, the work of the business executive and the decisions he makes are conditioned to an increasing extent by a regard for the public interest. To a certain degree, business has been forced to accept social responsibility through legislation. But, as a result of social pressures and an awakened consciousness of his significant place in the social and economic structure, voluntary action of a constructive character in the public interest is often taken. Business decisions are being made with long-run, rather than short-run, considerations in mind. Many of these decisions are of a marketing character. For instance, the public is interested in the reasons behind price decisions and resents price increases which seem unwarranted. A decision by one of the steel companies to raise prices, when the public was acutely aware of the inflationary tendencies then present, was sharply and widely criticized. In other instances, the constructive character of enlightened policies of business concerns has been the subject of widespread approval. Simply as a matter of public relations, marketing decisions which either do, or seem to, conflict with the public interest are of a questionable character. It is thus apparent that the willingness of a concern to let social considerations influence policy decisions or decisions on day-to-day operations is a factor of no little significance in the work of sales management.

REVIEW AND DISCUSSION QUESTIONS

1. Define "marketing" and "production." How are the two subjects interrelated?
2. Why is it difficult to delimit any field of knowledge exactly, particularly sales management?
3. There are two differing concepts in regard to the field of sales management, one considerably broader than the other. Define "sales management" in accord with each of these two concepts. In view of your knowledge of marketing, which of these two concepts appears more realistic?
4. "Sales management, to a greater extent than other marketing subjects, is coextensive with the field of marketing." Explain.
5. Which of the various subjects included in basic marketing courses can reasonably be considered a part of sales management, as previously defined? Should these subjects be considered further in a course in sales management?
6. Why are advertising, foreign trade, and market analysis, although in

their managerial aspects a part of sales management, usually studied in separate courses?

7. Outline and discuss in some detail the functional structure of the field of sales management.
8. The task of sales executives is similar to that of the entrepreneur as envisaged by the theoretical economist. The economist, when thinking of the use of productive factors, is likely to discuss the concepts of "combination" and "imputation," and perhaps, in regard to the latter, the logical method of "single difference." Consider these concepts in relation to the essential task of the sales executive.
9. The costs of marketing manufactured products have increased considerably during the past several decades, both in absolute terms and relative to the costs of production. This tendency has often been ascribed to inefficiency in the marketing system for manufactured products. What other explanations can you suggest?
10. Consider the growth of sales management with particular reference to basic tendencies in the American economy. Do you think that these tendencies have been arrested and that the managerial aspects of marketing will be of lesser importance in the future?
11. What criteria would you suggest for use in an attempt to ascertain whether sales management in a particular concern is effective?
12. Sales executives work within a complicated structure of restrictive forces which influence all policies and procedures followed. What are these forces; what is their relative importance; and how do they restrict action?
13. What, in your opinion, should a socially defensible marketing system for manufactured goods accomplish?
14. Scan some of the recent issues of *Sales Management* and *Business Week*, Marketing section, also recent articles in the Marketing Series, American Management Association, and note the sales management problems which are currently of interest to sales executives.

SUPPLEMENTARY READINGS

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PART II

PLANNING THE PRODUCT

Chapter II

PRODUCT DEVELOPMENT

INTRODUCTION

THE importance of product planning cannot easily be overstated. It has frequently been said that an excellent product sells itself. Although this statement is manifestly incorrect if taken literally, still, like any broad generalization, it is more than a half-truth. A more correct statement of the general idea would be that the selling problems are greatly simplified if a company has been unusually successful in designing a product which adequately meets consumers' needs and desires. Consumer interest is more easily aroused, consumer acceptance of the product is more readily secured, dealers are more willing to handle it, sales volume is more likely to be high, and, as a result, selling costs per unit of product are likely to be low. Thus progressive business concerns attempt to discover what consumers' needs and desires are, in so far as that is possible, and then attempt to create more effective products so that the problems of selling will be eased rather than aggravated by the product itself and by its relative standing among those of competing companies. This is the first, and in many ways the most important, task of those intrusted with the marketing activities of a manufacturing concern.

In these next few chapters we shall be concerned with this general task of planning the product. The problem involved, briefly stated, is to find out what consumers' needs and desires are in relation to the products in which a concern is interested and then to create products in conformance with the information secured. To proceed in this manner is good business policy, for it is directly in line with the principal objective of all economic activity—that is, the satisfaction of con-

sumer wants. Not only does the suggested procedure achieve this objective to a marked degree, but it likewise helps to attain the chief objective of the individual business enterprise, which is profitable operation.

The word "product," for the purposes of our discussion, will be thought of in a very inclusive sense as being that which the consumer actually receives when making a purchase. Thus, in addition to topics such as product development, product testing, and the constitution of a line of products, such others as packaging, branding, and labeling will be dealt with. In a very real sense, the consumer buys assurance as to quality and information about the product through branding and labeling. Furthermore, when a person buys a product such as an automobile, he is buying not only so much physical material combined in a certain way but also assurance that it will give the utility of transportation. Assurance is given through the manufacturers' reputation, through written warranties, and through knowledge that service will be available when needed. Warranty and service are in part matters of product development and in part matters of promotion. They will be considered in the section on planning the sales effort. In the remainder of this chapter, other topics concerned with product development will be considered.

The Merchandising Function

Planning for adjustment of the merchandise produced or offered for sale to consumers' needs and desires, with its attendant activities of procedure and control, is commonly known as "merchandising."[1] As so defined, it comprehends both qualitative and quantitative adjustments —that is, questions not only of what to produce but how much to produce and when to produce. Merchandising thus includes market analysis, which deals with inquiries into the nature and characteristics of present and potential demand for products and services. If the objective of an inquiry is to secure information from the market which may ultimately affect the nature of a product or disclose new uses to which it may be put, it is called "qualitative" market analysis. If, however, the objective is to determine how much can be sold, when, and in what parts of the total market, it is called "quantitative" market analysis.

Not infrequently people think of merchandising as dealing only with qualitative adjustments to consumer demand, in which case it would exclude quantitative market analysis. Then it would comprehend only such topics as planning the product, product policy, or

[1] It should be noted that "merchandising" as here defined does not include sales promotion or selling activities. Although the terms "merchandising" and "selling" are still frequently used synonymously, there is increasing evidence of an inclination to distinguish carefully between them. What merchandising comprehends will become more apparent in succeeding paragraphs.

product research. But this is none too realistic when we consider actual practice in reference to the responsibilities which are customarily assigned to merchandising departments in those concerns that have segregated work of a merchandising character. Moreover, it seems reasonable that those people who determine what to produce, after inquiries into the characteristics of demand and into new uses and applications for products, should be in the best position to determine how much to produce, when, and what inventories need to be carried. Either the use or the user is, in fact, the *unit of measurement* for quantitative market analysis. Facts about the use of a product must be known before estimates can be made of the quantity of product which will be needed for that use. If the objective of a study is to determine the extent of demand for a product in certain known uses, then the discovery of new uses and applications becomes a by-product of that study.

Usually there are multiple objectives, all of which can be accomplished in a single study. A firm may wish to determine product uses, both present and future; the urgency of each use, as determined by the utility given or the savings achieved; the probable extent of demand for each use; and, finally, the manner in which the product fails to meet consumers' needs. Any one of these may be the major objective of an investigation, but some information on each is likely to be secured while the procedure is being carried forward. The close relationship of these tasks is probably sufficient reason for including them under the general term of "merchandising." It should be recognized, however, that the problems of qualitative and quantitative adjustments to demand are different in nature. Furthermore, the techniques used in their solution differ appreciably. Thus the two will be segregated in our discussion.

Responsibility for Product Planning

Many people would presume offhand that the manufacturer must, of necessity, take responsibility for determining the characteristics of his products. But this part of the merchandising task may, at least in part, be performed by consumers, distributors, or industrial or institutional buyers. In a broad sense the selection of what shall be produced is not in the hands of producers but in those of consumers. In a capitalistic economy, production is guided by consumer choice acting through the price system. Each consumer expenditure is an alternative one. When one product is chosen rather than another, its total demand is thereby increased, and the total demand for some other product is necessarily less than it otherwise would be. In this sense consumers, by their choices, determine the volume of what shall be produced by manufacturers—that is, the extent of "reproduction" of products which have been placed upon the market. But do they likewise deter-

mine what characteristics products shall have when they first appear in the market, or is their contribution only in the decision as to whether to produce more or less of each product after products have been placed on the market initially?

We might conceive of an economy in which consumers determined the exact characteristics which they wished to find in products—that is, in which consumers did all the designing, in turn ordering these products from distributors, and the latter, in turn, ordering from the manufacturer. All manufacturing would then be done on advance orders, and the merchandising work of manufacturers would be entirely shifted to the consumer. These conditions are in part approximated when a lady selects a pattern and cloth and then engages a dressmaker to produce the finished product. Even in this case, however, the designing was done by others. In some instances, consumers may actually determine the form which the product will take, but they rarely do so. They have neither the ability nor the willingness to determine their wants before production takes place. In most instances, they have only vague, half-formed ideas in regard to the products which will suit their fancy or fill their needs. Ability effectively to aid in the design of new products or product improvements would be limited to a very few lines, if any. This does not deny that the consumer can be helpful in giving ideas about products in use to producers, but it does suggest that the initiative must come from other parties.

What the consumer wishes, particularly in such products as clothing and house furnishings, is the opportunity of inspecting a wide variety of merchandise before selection is made. Desire for a certain type or pattern is, therefore, the fruit of comparison and not the result of lengthy premeditation. Moreover, consumers do not wish to wait for products during the period of manufacture. Instead, they desire immediate satisfaction of wants. If they ordered in advance of manufacture, their desires might well change in the meantime, and the product, when delivered, might not be acceptable to them. Thus the burden of qualitative adjustment of product to demand is thrown upon the manufacturer or upon distributing intermediaries.

It is not unusual for distributors or industrial buyers to take the responsibility for designing products. Large department stores, mail-order houses, and grocery chains frequently determine the characteristics which they wish in certain products, and then go to the manufacturer to get bids on production or, as not infrequently happens, manufacture the products themselves. There is evidence that distributors are taking much more of a hand in merchandising than formerly.[2] Furthermore, they are in a particularly favorable position to judge

[2] David R. Craig and Werner K. Gabler, "The Competitive Struggle for Market Control," *Annals of the American Academy of Political and Social Science*, Vol. CCIX (May, 1940), pp. 84–107.

the needs and desires of consumers because they are in constant and close contact with them. Observant and inquisitive floor salesmen come to know a great deal about consumers' likes and dislikes. This is truer for the heavy lines, such as household equipment and furnishings, than for drugs and groceries, in which the exchange of viewpoints between the salesman and the customer is often reduced to a minimum. A manufacturer might have to conduct a costly survey in order to get as adequate information about consumers' wants as that which may be secured in retail outlets through continuous contacts with consumers.

Where marketing agencies assume responsibility for determining the characteristics desired in products, either the agency is large and more able financially than the manufacturing company, or, for some reason or other, it is in a much better position to make accurate decisions regarding consumers' wants. Mail-order houses combine all the needed characteristics, and the largest department stores combine many of them. The volume of business of mail-order houses is very large; they are financially strong; and, because of their widespread activities, which frequently include both mail-order business and the operation of retail stores, they are able to secure a fairly accurate picture of market needs and desires. But they also labor under numerous disadvantages. Although they can get the needed information from consumers, they are not so likely to have the technical research facilities to translate the information into product innovations or improvements. It is one thing to discover that a product is unacceptable to a large proportion of the consumers who have tried it, and quite another to change the product so that the objections voiced are overcome and no new ones created. Thus we often have what amounts to co-operation in the merchandising task. The large distributors get information in relation to the qualitative aspects of demand and pass it on to manufacturers, who attempt to adjust their products in the light of that information.

Under the conditions which now exist, large distributors could not appreciably relieve the manufacturer of the product planning task. They sell a tremendous variety of merchandise, and, despite their size, they sell but small quantities of many items. It would not be feasible to attempt to determine the characteristics which were desired in all these items and, subsequently, either to change the product or to influence the manufacturer to do so. It should be noted in this connection also that mail-order houses and department stores together do less than 10 per cent of the national retail business. Even if these two types of distributors were very active in product development, the manufacturer still would have to assume the major responsibility for merchandising work.

Industrial buyers very frequently have a commanding voice in determining the characteristics of the products which they purchase.

Parts for assembly are produced according to buyers' specifications. So are supplies of various types. The buyer may play an important part in determining the characteristics needed in industrial equipment. A conveyor system furnishes an excellent example. No two are likely to be identical. Each conveyor must be designed for the building in which it is to be used and for the particular service which it is expected to give. Determination of the system needed is likely to result from the joint efforts of the buyer and the seller.

It might be considered that the responsibility for planning and development of new products would rest in part on the inventor, that he would determine market needs, develop a product which would meet those needs, and then sell his product ideas to a manufacturer, who would subsequently produce and sell the product. This procedure is not uncommon, but only rarely are products fully developed in the mind of the inventor when his ideas are presented to the manufacturer. The B. F. Goodrich Company's Torsilastic rubber automobile spring was the idea of an independent inventor. But the Goodrich Company had to translate the idea into a marketable product. As a matter of fact, new product ideas at present are rarely the product of an inventive genius working alone, but are rather the product of organized research groups, working with the benefit of highly technical equipment in the laboratories of large corporations. The automobile, chemical, rubber, and food companies, among others, have large, expertly manned research laboratories which work continuously on the solution of recognized problems.[3] From these come both the ideas and the designs for new products and product improvements. Smaller companies may do their own product research but frequently are more likely to utilize the services of independent research laboratories or to depend upon the technical research activity of trade associations.[4] The inventor has come to be a highly skilled employee of industry to a greater extent than formerly.

Thus it seems apparent that manufacturers must take most of the responsibility for product planning. Except for rare instances, consumers are either unwilling or unable to determine their wants in advance and to design products to meet those wants. Large distributors are in a better position than consumers and, perhaps, even than manufacturers to determine consumers' wants, but they are not so effective in translating known wants into acceptable products. Furthermore, they handle only a small portion of goods sold at retail. Industrial purchasers do much to influence the characteristics of the equipment, supplies, and assembly parts which they buy. But, even in relation to such products, the manufacturer may be entirely responsible for product

[3] See National Resources Planning Board, *Research—a National Resource*, II ("Industrial Research"), Sec. II, No. 1, "The Development of Industrial Research in the United States" (Washington, D.C.: U.S. Government Printing Office, 1941).

[4] *Ibid.*, Sec. II, No. 4, "Technical Research by Trade Associations," and Sec. II, No. 2, "Research—a Resource to Small Companies."

development or may do much in co-operation with the buyer. Inventors either become associated with business concerns and work as part of a group or furnish nebulous ideas on which much more work is required before they appear in acceptable products for the market.

Responsibility within the Business Enterprise. The responsibility for product development cuts across the usual departmental lines. Both production and sales departments have an interest in determining the nature of the items which are to be produced. Sales executives may estimate that a product with certain characteristics will have a large potential sale if it can be offered at a certain price. But price depends in part on unit production costs, and this is the province of production executives. Perhaps, if the product were changed in certain particulars, the cost would be substantially less. These changes might or might not affect its acceptability to consumers. If suggestions for change were made by production people, those in the sales departments might concur or make countersuggestions. Finally, a decision would be made which would, in all likelihood, be a compromise between conflicting positions, but it would be the most reasonable one, all things considered. A nice balance of responsibility and authority is needed between sales and production departments if the decisions on product are to be made with the greatest wisdom.

Companies differ markedly in their organizational framework and in the assignment of duties to various units. In some companies the major responsibility for planning and developing products is given to the sales department, in others, production appears to have the upper hand. Or a director of research may be in charge of all research activities whether on product, processes, or materials. Certain less technical aspects of product development, such as packaging and labeling, may be placed under a commercial research department. A number of large concerns have a new product-development department. While the particular function of the department may be to take new products which have been designed and handle them until they have become established in the market, still there is much by way of experimentation and testing in certain uses which may suggest later changes. Thus its work is partly selling, partly merchandising. Creation of a separate department for product development—one which acts in a liaison capacity between production and sales—appears to be excellent practice. It is work which is likely to be neglected unless it is centered from an organizational point of view. At least some means should be provided for co-ordination of technical and market research in relation to products.

PRODUCT DEVELOPMENT

Product development in most instances is an exceedingly complex activity and one which takes a variety of forms. It should be thought of as comprehending (1) initial development, (2) subsequent change

to incorporate new ideas, and (3) the determination of new uses or applications.

A company may start out deliberately to design a product which will have certain characteristics and be capable of giving certain utilities. Such action follows a decision to compete for the first time in a certain field. The development of the Bendix Home Laundry—a washing machine of revolutionary design, which washes, rinses, and damp-dries—is an example of this. Under other circumstances a product may be thrust upon a sales organization as the result of technical research. For instance, calcium chloride, which is so extensively used on roads to control dust, was first produced in large quantities as a by-product of other manufacture. The problem as it came to the sales organization was to find a profitable use for this by-product and thus provide a market. Its use as a dust-layer was conceived, but the product in its original form was not adapted to that use. Later, a method was found to convert the solid calcium chloride into flakes, and the planning work thus reached a successful conclusion. Now calcium chloride is a profitable product and is shipped in large quantities to all parts of the country for use on roads.

Frequently product planning is concerned with changing products or their containers in order to incorporate new features. This is commonly referred to as "product improvement." Any change constitutes improvement if the resultant product more fully meets consumers' needs and desires. There are usually three activities involved when a firm contemplates a change in an existing product: first, an analysis of the product in an objective manner in order to determine what utilities it is capable of giving; second, specialized research directed at consumers in order to obtain facts about their needs and desires in relation to the product; and, third, change or adaptation of the product in the light of the facts accumulated. The first of these is product analysis *per se*, the second is qualitative market analysis, and the third is redesigning of product. As would be expected, these activities are called for in varying degrees, depending upon the nature of the product, the competitive position of the company, and other pertinent factors.

Product improvement is particularly evident in products which are highly styled, such as women's clothing, and in products, such as radios, refrigerators, and automobiles, in which new models incorporating improvements in materials or design are introduced annually. In the food and drug lines, improvements frequently take the form of changes in packaging or labeling. Or the range of package sizes may be extended, or slight variations in the product may be offered to meet particular needs. For instance, the shampoo Drene is offered by the Procter and Gamble Company under one formula for people with dry hair and under another slightly different formula for people with normal hair.

Change for the sake of change constitutes product improvement for style goods. Products of the old designs have become obsolete simply through the passage of time, and thus something new, even though it may be of poorer design from the artistic point of view, is considered by purchasers an improvement over the older designs. In women's outer clothing, for instance, improvement in large measure means change in conformance with the dictates of fashion. Thus improvement should be thought of in terms of a more acceptable product to consumers rather than simply as a better product from the utilitarian point of view.

The determination of new uses and applications is a form of product development because, subsequently, new utilities can be offered to buyers through an established product. The product may or may not be changed to adapt it to the new use. The work of the California Fruit Growers' Exchange in finding new uses for citrus fruits is an outstanding achievement of this sort. The product itself has not been changed perhaps, other than in quality, but extensive markets have been developed by the discovery of new uses and by promotional efforts to popularize those uses among consumers. The production of canned juices constitutes a change in the product to make it more adaptable for use by low-income groups.

This form of product development has particular significance in the industrial field. It is going on in nearly every industrial establishment in the country. The nature of the work is well illustrated by a comment from a ball- and roller-bearing manufacturer:

> We have one group which devotes its time to a study of the application of bearings to many types of units in industry. In fact, wherever shafts rotate new bearing problems are presented, and these are studied by mechanical engineers who, as a rule, spend much of their research time in the plants of manufacturers using our products. The various details of the design of the bearing mounting and of the lubrication and use of the bearing are studied, and recommendations made not only as to bearings, but as to the design of surrounding parts used therewith.[5]

After work such as this, the manufacturer has something additional to offer to buyers, and in a very real sense his line has been extended, whether or not changes have been made in the physical product offered.

Extent of Product Development in Recent Years

The extent to which new products have appeared and others have been improved is at least partially evident to any observant person. But the magnitude of the change in the products offered in the market dur-

[5] *Ibid.*, Sec. VI, No. 8, p. 339.

ing the present century needs to be stressed. Many of the products which we now consider almost in the class of necessities are of very recent origin, at least in their present form. Among these are the automobile, the radio, electric refrigerators, and other electrical appliances. Changes in the form in which food gets to the final consumer have been outstanding. Packaging is much more common and much more effective than formerly. In the industrial field changes in machinery and equipment used for productive purposes have been marked. Synthetic raw materials, such as rayon, Nylon, Orlon and even glass and plastics for use in the weaving of textiles, have appeared. Natural rubber has been replaced for many uses by the synthetic product. Plastics have been developed for a great variety of purposes. Some of the new products developed for war uses have been adapted to nonmilitary uses. And all these changes in product are essentially the achievement of the twentieth century.

The effect of new product development on the output of specific companies may help the reader to visualize the changes which have been made. The 1937 annual report of E. I. duPont de Nemours and Company states that 6 out of 12 products which had been developed and placed on the market in the 10-year period prior to 1937 accounted for about 40 per cent of total sales in that year. DuPont, before the first World War, was essentially a manufacturer of explosives. Now the company produces dyes, lacquers, rayon, Nylon, Lucite, Cellophane, pigments, ammonia, and a host of other products. Only about 56 per cent of the dollar sales of the rubber companies were of tires and tubes in 1940, in contrast to 63 per cent in 1930.[6] The other 44 per cent were made up of transmission and conveying belts, fabrics, footwear (in which changes have been abundant), and such new products as Pliofilm, Chemigum, Foamed Latex, and molded parts for many uses. Mechanical goods, which accounted for only 9.5 per cent of the total sales in 1923, accounted for almost 21 per cent in 1940. An executive of one of the large paper companies said: "If we were producing today only the papers that we manufactured 10 years ago, we would not be running 50 per cent of the time."[7]

The relative importance of the forms of product development is not easily determined. But entirely new products, such as duPont's Nylon, Goodrich's Koroseal, and Owens-Corning's Fiberglas, come along with great infrequency, even for large concerns with excellent research facilities. Discovery and invention, while highly significant, should not be allowed to obscure the important flow of ideas which continually results in improvements for a host of long-established

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[6] These and other data on rubber products were secured from the Rubber Manufactures' Association through the courtesy of one of the large tire companies.

[7] R. A. Hayward, *Who Gets the KVP Dollar?* (Kalamazoo, Mich.: Kalamazoo Vegetable Parchment Company).

products. This question of the relative importance of initial development, as over against subsequent change or improvement, is well stated in a report by the National Research Council:

> It might be well at this point to call attention to a vague but significant distinction between invention, in the popular sense of a radical departure from previously existing products or processes, and development of new products or processes that grow out of older ones. Invention, in this sense, is the romantic, spectacular side of new product research, but, commercially speaking, it is relatively unimportant either in volume or in financial return. The really remunerative new products are usually the result of patentable or other developments just ahead of the crest of current practice in well-established fields. Wholly new ideas, particularly those which lead to new industries, are few and far between, and a long, hard road commonly lies between conception and commercial success.[8]

General Reasons for Product Development

The basic reasons for constant attention to product development are the instability of consumers' preferences and purchasing power, on the one hand, and the instability of competitive position, on the other. If a manufacturer could be sure that consumers would want the same things in the same proportions year after year and that other manufacturers would not entice them with new or changed products, there would be much less reason for attention to product development. But markets are constantly shifting. In order to meet the changing needs of a population which is shifting in both composition and location, and to compete with other manufacturers, attention must be given to product development if profitable operation is to continue. Population trends have a marked effect on demand. Some of these are noteworthy. Population is still increasing, but at a decreasing rate. The number of families is growing much more rapidly than the entire population, which means a lower average number of persons per family. This trend should increase demand for those products which are distinctly family purchases.

The average age of Americans is increasing. A continuance of this trend will mean a much larger proportion of our total population in the upper-age brackets, and a resultant need to shift production to articles which will meet the needs and desires of older people. For many decades there has been a continuous shift in the location of population from farms and rural areas to urban places. This change in the mode of living in so large a section of our population has profoundly affected products offered in the market. It is one reason for more extensive packaging and packaging in smaller containers. Products have had to be developed to meet the needs of large, relatively low-income

[8] National Resources Planning Board, *op. cit.*, Sec. VI, No. 8, p. 338.

groups in urban centers. More people have become apartment dwellers, and thus products in the household-equipment field have had to be adapted to smaller living quarters. Perhaps this long-continued trend toward urban centers is being reversed, for there appears to be a trend toward suburban living. Decentralization of industry is much in evidence, and, if it continues, will affect both consumer preferences and purchasing power.

A much larger proportion of women worked outside the home during the war than formerly, and many have continued to do so. There is an active interest in health and nutrition, which is affecting the product decisions of the food companies and the producers of sport equipment and apparel. More people are now interested in outdoor living and travel. This is in part a reflection of improved transportation and communication. When great inventions, such as the automobile and television, appear, they influence product development in many lines. Demand is reduced for products which are associated with other forms of transportation and communication, and a host of other products have to be modified, and still others created, to meet the new needs and desires of consumers whose mode of living has been changed.

Improved transportation and communication have likewise created a more homogeneous national market. Although regional variations in demand because of racial, social, and climatic differences still abound, yet the manufacturer can develop products for a "national" market more than he could formerly. But a counteracting factor is present. The economic development of the past few decades had brought an increased standard of living, higher purchasing power, and a greater margin of purchasing power above that which is required for necessities. In luxury goods, people wish more varieties from which to choose. More unusual desires, which are not satisfied by highly standardized products, can be satisfied through purchases, whereas lower-cost, standardized products would have to be purchased under a more circumscribed mode of living. Shorter working hours and greater leisure have likewise introduced new product problems. Thus, although regional variations in demand may have been lessened, this has been more than compensated for by the increased demand for variations because of other factors.

While the long-term trend of consumer purchasing power has been upward, it has not been continuous. The level of purchasing power fluctuates widely over relatively short periods, and this presents additional product problems. National income was approximately $87 billion in 1929.[9] In 1933 it had dropped to approximately $40 billion. From this low point, it increased to $104 billion in 1941, the last year

[9] All national income data from *Survey of Current Business* (U.S. Department of Commerce, July, 1949), p. 10.

before the war, and to $226 billion in 1948. With changes such as these comes a pronounced change in consumer demands. Buyers become more price-conscious, and probably act with greater intelligence in buying, when purchasing power has been restricted. Unbranded goods and little-known brands are likely to enjoy an increase in sales at the expense of the well-known national brands. This is even more likely if manufacturers of the national brands do not keep the price spread between the two classes within reasonable limits. While manufacturers dislike to reduce the quality of their products in response to a decrease in purchasing power, still the addition of lower-price lines may be necessary if it appears that the reduction in purchasing power is other than temporary. The product itself may not be changed, but the package may be cheapened in order to reduce the over-all cost to consumers. Conversely, when purchasing power increases, people demand not only more products but better products. While adaptation of products to shifting levels of purchasing power is not necessary under all circumstances, still a pronounced shift either upward or downward may make product changes advisable.

The other basic reason for constant attention to product development is the instability of competitive position. If a manufacturer fails to improve his product or to bring out new ones in response to changed conditions of demand, and other manufacturers do, he is soon in difficulty, for his sales and profits, in all likelihood, will be reduced. This is, of course, simply the normal and expected result of forces which are allowed to have their way in a competitive economy. In such an economy the responsibility for decisions in regard to production is not concentrated as it theoretically would be in a socialistic or communistic state. Rather, it is spread between many producers, all of whom presumably make independent decisions. Furthermore, in determining the nature of the product to be manufactured, there is strong evidence that they do make independent decisions. If there is collusion among producers, it is more likely to manifest itself in pricing or in the performance of functions other than merchandising.

In recent years certain manufacturers have relied more and more upon product development, and apparently less on production economies, to keep ahead of competition. They have found that price competition, under certain conditions, is not fruitful, in that it begets more competition, and all producers suffer. The advantage gained by price reduction is likely to be a transitory one, whereas the advantage gained by developing a superior product and offering it on the market may have more lasting qualities. In the manufacture of paper, for instance, the advantage gained through the development of a new type for a specific purpose, such as the inside wrapping for a soap bar, may last for a number of years. By the time the product becomes one of heavy demand, and others learn to produce it satisfactorily, the first pro-

ducer may have still other new types of paper to offer. This may make it unnecessary for him to produce the older item in which there is little profit because of price competition.

Another example is furnished by the cigarette industry. Identical prices on standard cigarettes, such as Camels, Lucky Strike, and Chesterfield, have been charged for many years. Whether this identity in price is the result of the natural working-out of economic forces, or whether it is the product of collusion, has been argued in the federal courts. But, during the time of this price identity, numerous changes in the products offered have been made by certain companies acting quite independently, although others may have imitated the change later. These included the use of Cellophane for wrapping, variations in the mixture of tobaccos used, and changes in length. All were used extensively in promotional activities. Frequently the changes have been very effective in creating a division of total demand favorable to a given company. The evident intent is to rely upon product change or differentiation, rather than price reduction, for competitive advantage.

One further reason for product development deserves at least a brief comment. It is the desire of many business executives actively to promote product development so that the concern with which they are connected will be in the forefront of industrial leadership. Development of products which are markedly superior to those previously manufactured and sold—machines or equipment which will increase productivity, or consumer product which will give greater utility—may become almost an end in itself to some executives. They believe in product improvement, they believe in high-quality product, and they are loath either to discontinue research in relation to product development or to lower their standards in relation to quality. While it is not common to ascribe motives other than mercenary ones to businessmen, insistence on product improvement springs, in part, from a conviction on the part of some executives that it is the way of progress.

Specific Incentives for Product Development

There are numerous immediate incentives to action on product development of greater or lesser urgency which merit discussion. Each has as its prime objective the increase of sales through the development of new products, new uses, more effective products, or cost reduction.

Recognition of an Unmet Need. Existing products may fail to meet certain strong consumer needs or desires. If this is recognized, the incentive for product development is likely to be so strong that new products will soon be made available, provided that technology is sufficiently advanced to provide for their design and manufacture.

Utilization of Excess Production Capacity. More than any other single factor, the presence of excess production capacity forces attention on product development. Manufacturers know that, if a portion of the plant available is not used, fixed costs will have to be spread over fewer units, and unit costs will then be increased. While the most usual reaction is to extend the line produced, product improvement or the determination of new uses might be equally effective in utilizing capacity.

Excess capacity may be present for a number of reasons. Perhaps the need for production facilities was overestimated initially. Or excess capacity may be the outgrowth of a seasonal demand. If other products could be found which would utilize the same production facilities at times when they were not in use for the original product, overhead costs per unit of product could be decreased. Overcapacity likewise appears when demand is particularly subject to cyclical variations. The makers of industrial equipment, automobile accessories, and costly household appliances are very likely to find themselves with unused capacity in depression periods. The Bendix Company, originally a producer of automobile and airplane parts, decided to manufacture the Bendix Home Laundry, partly, at least, to attain more diversification and thereby lessen the extent of fluctuations in demand for its products. Still another reason for overcapacity is a serious reduction in demand brought about either by the increasing effectiveness of competitors or by a fundamental change in living habits, which decreases total demand. With the increased use of automobiles, the demand for baby carriages and for bicycles was greatly reduced. With the more general use of screens on windows, the demand for flypaper declined, and its maker was forced to seek other products.

Excess capacity may exist simply because of the indivisibility of the factors of production. For instance, when a manufacturer equips his plant, he must buy machines or install equipment which may be used only part time for the production of a given volume. In contrast, other machinery and equipment may be used to capacity. But some machines cannot be secured in exactly the size needed. Also, in view of reasonable expectations for expansion of sales, it may seem desirable to buy a larger unit than can presently be used because the price differential between smaller and larger units is not great. Consequently, even in a new plant, there is some lack of balance in productive facilities. Some machines or processes could be used more fully, and, as time goes on, the lack of balance may increase through deletions from the product line or new equipment acquisitions. There may be excess capacity as a whole or only in parts of a company's productive facilities. In either case, there is a strong incentive to develop new products which will make use of this capacity.

Utilization of Waste Products. An immediate incentive for prod-

uct development comes from the presence of waste products from other manufacture. The packing industry has been particularly successful in using waste products by producing glue, knife handles, brushes, fertilizer, medicine ingredients, soap, and many other products. The 1940 *Annual Report of Armour & Company* told of a new drug, called "cholesterol," made from the spinal cords of cattle, which in the past had practically no value. This product has numerous uses, a principal one being as a base for cosmetics. In the chemical industry, every gas or liquid which is the by-product of manufacture may be of value, and therefore research goes forward continuously to utilize what at the moment appears to be waste.[10]

Utilization of Materials for a Higher-Value Use. Even though one product from joint supply may not actually be waste, it may have only low-value uses and contribute but little to over-all returns. This condition furnishes an incentive to product development. Spam and Prem, the packaged meat specialities, are made in part from shoulder hams, known in the trade as "picnic hams," which were more or less a drug on the market and thus sold for low prices. Through their conversion into a specialty product, returns were increased from this part of the carcass.

New or Improved Products of Competitors. A strong incentive to product development may come from the action of competitors in placing a new, successful product on the market. While patents, secret formulas, and the processes of manufacture may prevent exact duplication, if the product appears to be a good one and one which fits into a company's line acceptably, there is an incentive to create something of like nature. After George A. Hormel and Company had introduced Spam, other packing companies a few years later brought out Prem and Treat as competitive products. All companies desired the higher-value returns as noted above, but companies other than Hormel had an additional motivation. A competitor had, at least temporarily, become considerably stronger through the development of a new product. Moreover, this new product gave them a lead which could be followed and which might be productive of increased profits.

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[10] Additional examples of waste utilization are given in the following quotation from National Resources Planning Board, *op. cit.*, Sec. VI, No. 1, p. 230: "The carbon dioxide formerly wasted from fermentation operations now finds sale as solid carbon dioxide or dry ice for refrigeration. The City of Milwaukee for some years has been able so to treat its sewage as to produce a fertilizer the sale of which has materially lessened the cost of sewage disposal. The sugar industry finds a steady market for its waste molasses which is used for the growth of yeast and the production of alcohol. One of the great distilleries has devised a process for treating its waste, which must be kept out of local streams, so that the resulting feedstuff pays the overhead for the entire plant. Furfural, which finds extensive application in the purification of rosin and the manufacture of lubricating oils, to mention but two uses, is the result of waste product utilization, since it is derived from oat hulls."

Inability to Secure Supplies from the Usual Sources. When supply sources are cut off and others are not available, industry must either develop substitutes or do without. For example, the first World War launched a chain of investigation in the chemical industry which made the United States much less dependent on foreign sources for dyes and organic chemicals developed by the Germans and considered necessary for many purposes, including laboratory research itself. Even superior dyes and other chemicals were produced in this country under the urge of necessity. The last war led to the production of synthetic rubber and quinine, among many products.

Practice of the Trade—New Models Periodically. In the automotive, electric refrigeration, and radio industries, the practice has developed of bringing out new models annually. In style goods, such as women's clothing, product development must come even more often, since the market expects seasonal variations in merchandise. In such cases, the maintenance of competitive position depends upon observance of the usual practices of the trade, whether they are self-imposed, as in the automobile industry, or imposed by the market, as in the dress industry.

A Need for Changes in Distribution. The cost of soliciting buyers directly is largely a fixed cost. This is true of both traveling costs and salesmen's compensation. If the average size of the order can be increased, the cost of solicitation per item sold will drop. Thus an incentive is present either to make the products offered more acceptable to users or to offer more products. This is particularly true for a manufacturer who has been selling through wholesalers but wishes to sell directly to retailers. The expense of selling through wholesalers is variable, whereas the expense incurred for direct solicitation does not vary proportionately with volume.

Suggestions from the Market. Suggestions for product change or extension of the line offered by either consumers or distributors may spur product development. Often these suggestions come entirely unsolicited, but more frequently they are the result of carefully planned effort to get just such information. They may show that buyers want certain new characteristics in a product or that they will purchase other items along with those which are customarily sold to them by a company.

Sources of Product Ideas

One of the most difficult and vital things in product development is to find sound, worth-while ideas on which to work. A multiplicity of ideas come from numerous sources, but the number of really good ones is few indeed. Because good suggestions at times come from queer

sources, a company is loath to neglect ideas from any source. The avenues by which they come must be kept open, and an organization must be created to handle them.

A broad source of product ideas is found in the social pressures which arise from changes in our manner of living or in the composition of our population. These come to the attention of business people either through introspection or through casual or planned observation. They develop an awareness of social pressures or social tensions and respond to them, just as poets, painters, or other artists do. They attempt through this response to realize the aspirations of their time. As the inventor does this, he becomes the immediate source of the product idea for the business concern. In a broad sense, it might be said that necessity is the mother of invention. If the demand for faster transportation, greater safety, or better lighting is sufficiently strong and persistent, a changed product embodying greater utility or a new product is likely to be forthcoming.

An illustration is furnished by the development of the I.E.S. lamp for home use. As an outgrowth of wider education, greater dissemination of reading materials at lower cost, more constant use of the eyes in vocational activity, and other social changes, there came to be a real need for better lighting facilities in homes. Individuals with poor vision rightly ascribed part of their difficulties to poor lighting. Through a recognition of this need by inventors and people in business, the I.E.S. lamp, which improved lighting materially, was invented and placed on the market. The fact of the need was attested to by the sales volume subsequently achieved. Changes in automotive design and accessories furnish another illustration. As a result of the wide use of automobiles and the increased speed at which they travel, questions of safety have been much in the public consciousness. The constant pressure for safety devices has found expression in safety glass, rounded car interiors, and blowout-proof tires, such as Goodyear's Lifeguards and Goodrich's Seal-O-Matic tubes. The development of de-icers for airplanes by Goodrich is another case in point.

Invention does not always follow clearly recognized needs. Social scientists, in the majority of instances, appear to have discarded the idea that "necessity is the mother of invention." There are certain individuals like Watt, Edison, or Bell, who, as someone put it, "have an instinct for contrivance." While they undoubtedly responded to the times in which they lived, it cannot be supposed that there was any profound recognition of need for many of the things which they invented, as there was for more safety in the use of automobiles or airplanes. In certain instances, products have appeared which seem to have had little connection with recognized needs. Such products were, nevertheless, made available, and the public determined whether or not they were useful. Invention, in such instances, might be con-

sidered the mother of necessity rather than otherwise. Thus there appear to be two primary sources of new product ideas: first, social pressures or tensions, and, second, technological research which may be the result of the necessities created by the former. With this general discussion in mind, we shall now turn to more specific sources of product ideas: the market, technological research within a company, inventors, a company's personnel, and other companies, including competitors.

The Market. A company's salesmen, servicemen, sales supervisors, and, at times, executives are in constant contact with the market and thus have firsthand information of buyers' needs, of inadequacies of both their own and competitors' products, and of changes in buyers' preferences. This contact is invaluable as a source of product ideas. For industrial equipment or for technical products of any sort, special investigations, often known as "trouble shooting," may be productive. In speaking of this, an executive of one of the large chemical companies said: "Of all the hopeful ways for an alert research organization to achieve new and immediate results, I suppose the complaints of customers about the failure of products to do the tricks for which they were designed afford the most obvious starting points."[11] Servicemen who survey customers' needs, demonstrate and install product, and service it afterward are an excellent source of new product ideas. No other group combines product, production, and market information more thoroughly. Home-office people may not be entirely cognizant of market needs; salesmen may not fully recognize technical problems in product construction; but servicemen are unlikely to be deficient in either respect.

In certain instances, the relationship between the seller and the buyer in reference to new products becomes a very close one. Some of the paper companies work closely with the large buyers of wrapping materials—the packing companies, the soap companies, and the manufacturers of breakfast cereals. The paper used must be just right both to preserve the quality of the merchandise and to allow for effective operation of packaging machinery. It is not unusual for the buyer to come to the paper company with a request that a paper with certain qualities be developed. In one instance, a paper company has been working five years to develop just the type of paper wanted by one of its largest customers. The chemical companies invite inquiries about their products from the field, through trade-paper advertising and through salesmen. Special contact men and salesmen are urged to say that company research facilities are at the service of the customer, and that his problems will be taken under advisement. Perhaps a company already has a product which has the properties that will meet the

[11] W. B. Bell, "The Executive and the Technologist" (an address before the American Section of the Society of Chemical Industry, February 16, 1940), p. 12.

requirements listed by the purchaser, but the inquiry may lead to the development of a new product. Obviously, the high costs of new product development can be incurred only if there is evidence that a substantial demand will be forthcoming. The steel companies likewise work closely with customers. It is said that the industrial research groups of the automotive, steel, and stamping industries worked together in the development of a special high-quality steel to be used for stamping out one-piece turret tops and fenders. In each of the situations mentioned, the buying company had much to contribute by way of product suggestions to the seller. At times only the need was made known, but frequently the desired characteristics of the product itself were specified.

For consumers' goods, retail salesmen and their supervisors may be the only direct contact with the market and thus furnish the avenue by which distributors' suggestions get back to the manufacturer. While distributors may have but few ideas for new products as such, still they may contribute worth-while information on the adequacy of current lines. Suggestions are likely to be centered on variations in products habitually carried, such as sizes or packaging. While suggestions from salesmen are often fruitful, they will always bear investigation to determine whether they are a real expression of consumers' or distributors' attitudes, or whether they constitute an alibi for failure to make sales in the expected volume.

Another source of product ideas is the user himself, who may be asked to express his opinion through questionnaires or interviews. Criticisms are welcomed, and frequently yield ideas for improvement. If a product has been on the market for some time, present users or perhaps former customers may be questioned. At one time a manufacturer of paper specialities, such as ice-cream and butter containers used by dairy companies and soda fountains, asked the writer to interview about thirty lost accounts in the Detroit area. The question was "Why did you discontinue using the X Company's products?" There was almost complete unanimity that the company's products lacked certain desirable characteristics which had been incorporated recently into the products of competitors. Product and market testing will be considered in some detail in a subsequent chapter.

Home-Office, Production, and Research Personnel. Many worthwhile product ideas are an expression of the originality and resourcefulness of home-office executives. If they head merchandising departments or are members of a merchandising committee, much of their time is allotted to work on product. With keen interest, a background of information, and constant attention to product problems, it would be surprising, indeed, if they were not productive of original and fruitful ideas on new products. Those in charge of production are more likely to be concerned with product changes which would re-

duce costs of manufacture than with changes which would increase the utility secured by consumers. But the fact that production people are frequently the source of product ideas, particularly in the industrial-equipment field, is attested to by many companies.

In the larger companies, technically trained people—chemists, physicists, metallurgists, and others—are likely to work on most product ideas which receive preliminary approval of top executives or merchandising committees. The idea may be the fortification of breakfast cereals with vitamins, or the addition of a strawberry flavor to gelatin desserts. The research group will be asked to discover some way to accomplish the desired objective. In acting in a service capacity to company executives, research personnel cannot properly be considered the source of the product idea, but rather the means by which the idea may become realized in a company's products. This is often called "research by the project method."

It should be recognized, however, that research opens new frontiers. The research man, by the very nature of his task, accumulates new ideas which may apply either to the product under consideration or to altogether different products. We may not agree with Dr. Mees that "the thing to do is to let the research man poke his inquisitive nose into some problem that fascinates him, and then follow it from fact to fact, no matter how far off the original track it seems to lead him."[12] And yet this statement does suggest why research people are so often highly productive of new product ideas. While there would be some difference of opinion as to whether a company's research workers should be allowed to wander far from the consideration of immediate company problems and get over into the realm of pure research, still in either situation the result may be beneficial. Examples are numerous. In the attempt to develop something which would help in the problem of film-drying, an Eastman Kodak Company research man discovered one of the best vitamin concentrates made.[13] Fiberglas was discovered when a research chemist was attempting to find a way to make permanent the lettering on milk bottles. The B. F. Goodrich Company's plastic, Koroseal, was discovered when research workers were attempting to find a substitute for gutta-percha for use in the manufacture of golf balls. These examples illustrate that new product ideas are often a by-product of technical research work.

Inventors. Most product suggestions come to business concerns entirely unsolicited, but now and then a concern will advertise for ideas and perhaps offer a substantial award if good ones are presented. Hyatt's experiments with nitrocellulose, through which celluloid, the first of the modern plastics, was developed around 1870, were moti-

[12] J. D. Ratcliff, "Eastman Kodak's Research Odyssey," *Barron's*, Vol. XXI, No. 25 (June 23, 1941), p. 3.

[13] *Ibid.*

vated by an offer of $10,000 made by Phelan and Collander of New York for a substance that could be used as a substitute for ivory in billiard balls.[14] Armour and Company recently advertised that an award would be given for product ideas if they met certain stipulations, but no awards were made and finally the offer was withdrawn. In such instances, a company probably has a dual objective in mind. The offer has advertising value and may be productive of ideas. While solicitation of this sort is not uncommon, still it accounts for only a minute part of the flood of ideas offered to business concerns.

Free-lance inventors besiege large corporations with product ideas. But only now and then are these ideas really of value. Moreover, inventors usually have exaggerated notions of the value of their discoveries. Frequently business concerns already have discarded ideas which inventors later forward as unusual or even revolutionary. This is suggested by the following extract from an idea submittal form used by General Foods Corporation:

> It is the experience of the Corporation that most of the ideas for the promotion and packaging of its products and for new products, suggested by those outside the organization, involve nothing essentially new. Often the same or a similar idea is suggested by many different people. Frequently the suggestion includes features already used by General Foods or by others. The practical difficulty of determining the original author of any idea and the resulting possibility of misunderstanding make it necessary for General Foods to entertain suggestions only when they are explained or outlined on this form and in accordance with the signed understanding printed hereon.

The inventor's idea, although a valuable one, may be in such a nebulous state that a vast amount of work must be done and expense incurred before it actually becomes incorporated into a product ready for the market. If, then, the final product is the joint effort of the inventor and the company, the problem arises of evaluating the contribution of each. To avoid dissatisfaction and the possibility of subsequent legal action, business concerns often purchase inventor's ideas outright.

Difficulties encountered in dealing with inventors have led some companies to close this avenue of ideas entirely. At least, if ideas are welcomed, the companies accept them under their own terms. Many concerns ask inventors, prior to any discussion of the idea itself, first, whether the idea has already been given legal protection through patent or copyright, and, if not, whether they are willing to sign a form, the purpose of which is to protect the company against future litigation.[15] Unless this form is signed, and the inventor submits his

[14] National Resources Planning Board, *op. cit.*, Sec. II, No. 1, p. 29.

[15] For a general discussion of the forms used by companies for this purpose and for many actual examples likewise, see "Policies of 100 Corporations in Considering Ideas from Outside," *Sales Management*, Vol. XLVI, No. 2 (January 15, 1940), p. 18.

proposal in writing, no further negotiation is carried on. The following is another paragraph in the form used by General Foods Corporation:

I wish to present for your consideration the idea, device, or product described below. I submit this suggestion with the understanding, which is conclusively evidenced by my use and transmittal to you of this form, that the use to be made of this suggestion by you and the compensation to be paid therefor, if any, if you use it, are matters resting solely in your discretion. This understanding applies also to use, if any, that may be made of this suggestion by any of your subsidiary or affiliated companies. Further, this understanding applies also to any supplementary material submitted with this suggestion. I have described such supplementary material below, and have referred to it as Exhibit A, B, C, etc.

This form has been used in many thousands of cases, and the courts have ruled that it gives the Corporation the full protection sought. It might be argued that the inventor, in effect, signs away all rights, and thus places himself at the mercy of the Corporation. But the latter is within its rights in deciding whether to consider proposals from outsiders, and the terms under which consideration is to be given. The inventor may accept them or not, as he chooses. This, of course, does not imply that large corporations desire to deal unfairly with those who present ideas. Most executives in such companies are attentive to considerations of equity and public relations. Actually, a free-lance inventor can expect little more, initially, than serious consideration of his product ideas by a reputable concern which has the financial ability necessary to utilize an idea for mutual advantage.

Other Companies. The right to product ideas or processes has frequently been acquired by outright purchase from other companies, or by financial action which brings about merger. E. I. duPont de Nemours and Company purchased patents on rayon and Cellophane, and got into the plastics field by purchase of the Arlington Company and the Viscoloid Company.[16] In effect, purchase of a company is simply an alternative means of acquiring product ideas and, perhaps, a less costly one. Larger companies may find smaller ones which have products in various stages of development, but which do not have sufficient financial resources to do the remaining development work or the sales organization to provide for market expansion. Under such conditions, there may be mutual advantage in sale or merger.

Competitors. The proportion of companies in many industries which do a substantial amount of creative designing is comparatively small. Some firms manufacture only products that are well standardized. Others definitely lead by carrying on designing work continuously, while still others "follow the leader," and copy to a greater or

[16] "DuPont II: A Management and Its Philosophy," *Fortune*, Vol. X, No. 6, pp. 96 ff.

lesser degree the designs created and placed on the market by other concerns. As a rule, it is a simple matter for an imitator to secure original designs. They can be seen at exhibits, in retail or wholesale outlets, and in advertising, or knowledge of them can be obtained by surreptitious means. Securing product ideas from competitors is, therefore, a very usual practice, especially for the smaller concerns, in industries in which decorative designs are of particular importance, such as the textile, clothing, leather goods, furniture, and glassware industries.

Problem of Design Piracy

The copying of other manufacturers' products has come to be known as "design piracy." This term suggests that there are both ethical and legal questions involved. While these questions will not be considered here at length, some comments are necessary to show to what extent this source of product ideas can be utilized. Roughly, there are three classes of designs: structural, pictorial, and decorative. Structural designs may be protected through patents and pictorial designs through copyrights. At times decorative designs may likewise be patented if the design meets the requisite tests of inventiveness or originality, but the time and expense necessary to secure a patent may be prohibitive. In general, manufacturers of such products as textiles, clothing, and furniture have difficulty in protecting their designs. They have attempted, through proposed legislation and through trade-association effort, to curb the practice of copying, but apparently with little success. Under the common law a company is permitted to copy any unregistered design—one neither patented nor copyrighted —even minutely. However, in the subsequent sale of a product the manufacturer must not represent himself as the originator of the design, or be guilty of acts intended to mislead the buying public as to the source or origin of the article.[17] Thus concerns which copy the products of others may be acting within their full legal rights. And copying is not a reprehensible practice or one which is valueless to the originator of new styles or models. Copying, in all probability, stimulates new product development. Copying merchandise for sale in lower-price brackets creates obsolescence and thus a market for new,

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[17] "The well-established rule *with respect to functional elements* is that where an article of manufacture is not protected by a patent anyone is at liberty to copy the form in all its essential features. In such case he cannot be charged with unfair competition merely because his product resembles that of another manufacture. The adoption of the particular form may be justified by its usefulness as to strength, efficiency, durability or cheapness. The only limitation is that this right shall not be exercised so as to deceive the public about the origin of the goods. Where other distracting features cannot be put upon the article, as a rule, attaching the name of the manufacturer will suffice" (Rudolph Callmann, "Style and Design Piracy," *Journal of the Patent Office Society*, Vol. XXII, No. 8 [August, 1940], p. 561).

distinctive styles which will appeal to individuals with high purchasing power.

Procedure in Product Development

A definite procedure is needed, particularly by large concerns, for keeping open the avenues of product ideas and for selecting from the many submitted the few which have merit. It is doubtful that any one clear-cut procedure for investigation and evaluation can invariably be used because product ideas differ markedly in their need for research activity. Some products take many years to develop to a stage where they are satisfactory for introduction in the market. Other ideas, particularly those involving change in existing products, may involve little research work and be accepted in a few weeks or months. While a large number of steps in the developmental procedure might be listed, they appear to fall into a few broad categories as follows:

Preliminary Evaluation of a Product Idea. There are so many product ideas without merit that some simple preliminary evaluation is needed. In one of the large food companies, this preliminary work is done either by the vice-president in charge of sales and advertising or by the vice-president in charge of research and development. In the American Cyanamid Company, new product ideas are referred to a New Projects Committee, which decides whether the idea should be discarded or investigated further.[18]

Investigation by a Technical Research Group. Product ideas considered to have real merit are submitted, usually in project form, to a research advisory committee for more extensive investigation. This group is expected to submit progress reports periodically to top management. Time and cost limitations may likewise be imposed as control devices. In one instance, after spending 75 hours on any product idea, the research group must have its work reviewed and secure approval for additional expenditures.

Legal Study. Before additional expense is incurred, it is necessary to determine whether other concerns hold patents or copyrights which would be infringed by production and sale of the product under investigation. There may likewise be some question as to whether the product would meet certain mandatory standards or be acceptable under the provisions of regulatory legislation, such as the Food, Drug, and Cosmetic Act.

Perfection of the Product in Engineering Shops or in Research Laboratories. This step involves product development as such—that is, the technical work necessary, largely of an experimental character, to create a product which may be acceptable to the market.

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[18] Bell, *op. cit.*, p. 25.

Study of Manufacturing Methods and Costs. Before product development is carried further, it is necessary to consider methods of manufacture and manufacturing costs. This frequently involves the use of pilot plants. Difficulties in production may make necessary changes in product design or even changes in its component raw materials. A product is never fully developed until it can be produced successfully at reasonable cost.

Market Testing. At this point potential customers are invited to express their opinions about the new product and, frequently, to compare it with competing products. One manufacturer called this a "painful process" and thereby implied that the results of market testing frequently brought certain facts to light which cast doubt on whether the product had, in fact, been perfected and would thus give expected utilities to consumers. Market testing may, obviously, make necessary further changes in the product before it is introduced into the market.

Introduction into the Market. After preliminary testing, the product may be introduced into limited sectors of the market to further check on consumers' attitudes toward it before it is introduced nationally. This usually involves no substantial delay, for a company seldom is able to serve the entire national market initially. Successful test marketing furnishes the final assurance needed that a product will be successful, and that full-scale production and marketing facilities should be developed.

CONSTITUTION OF A LINE OF PRODUCTS[19]

The general problem of product development usually is of a dual character. We already have considered many questions of policy and procedure in relation to the individual product. There are other problems, however, which pertain to the interrelationship between items in a group. Business concerns face a constant pressure for adding new varieties of a product, or even new products, to their lines as the result of product development, suggestions of customers and salesmen, or the presence of idle capacity. It is important, therefore, that there be an over-all product line policy against which each proposal for expansion may be reviewed.

The growth of lines of goods in many companies has been both prolific and irrational. Even more puzzling than the sheer number of products handled is the apparent lack of pattern in the lines of many manufacturers, even of those engaged essentially in the same type of business. Some firms offer many products, while others specialize in one; some carry the product items commonly associated in their in-

[19] This subject is considered at greater length in the author's book, *Planning the Product* (Chicago: Richard D. Irwin, Inc., 1947), pp. 41–76.

dustries, while others combine products which appear to be completely unrelated.

This somewhat chaotic situation reflects two contradictory policies which have accompanied the growth of industry: extreme product specialization and wide product diversification. However, the wide diversity in product structure cannot be explained solely in these terms. All too often, it simply reflects the absence of a definite policy as to what should constitute the line.

There is, of course, no one best product combination for companies in general or for companies in a particular industry. Individual circumstances differ. There is, however, a reasonable or rational line of goods for each firm, and certain considerations common to all firms constitute the proper basis for product decisions. Basically, there are two variables in the constitution of a line: the number of varieties and the number of different products or product classes.

Determining the Number of Varieties

The Market Demand for Variety. The total market for most products is composed of numerous individuals, groups, institutions, and business concerns with varying degrees of purchasing power and with somewhat different desires. Therefore, a manufacturer may find it profitable to offer a number of varieties of the same product to meet the demand for a wide choice among items capable of satisfying a particular want.

To appeal to wider markets, automobile manufacturers offer variations within one make of car. These take the form of different models, colors, upholsteries, accessories, and the like. Dentifrice manufacturers may offer their product as a paste, powder, or liquid. A suit manufacturer must determine the number of sizes to cut of each of his models. Most fountain-pen manufacturers offer their products at more than one price-quality level in an effort to increase sales. For some products, such as wearing apparel, the desire for variety for the sake of variety is one of the principal buying motives. Men wish to own several different ties or suits, and, certainly, each dress in a lady's wardrobe must be distinctive. Hence, a manufacturer must offer a wide selection of colors, patterns, and materials.

In the field of capital goods, manufacturers of highly specialized machinery typically design and produce their products to exact customer specifications. For instance, one manufacturer makes 57 models of broaching machines, of which only six are carried in stock as standard models. For companies in this field, the number of varieties to be manufactured is readily determined by clear-cut customer demand. For many companies, however, particularly those handling consumer goods, the market demand is not clearly defined. The number of

varieties must be decided upon in terms of anticipated sales volume.

For some products, more varieties may yield greater sales by opening up new markets or by satisfying a demand for variety for its own sake. For others, however, a few basic models may meet the desires of a large part of the market. Only a relatively small additional sales volume would be gained in such a case by adding other varieties.

Different price-quality levels of a product may be offered, either to meet more fully the varied demands of the market, or to realize gains from "trading-up" or "trading-down."

Trading-Up and Trading-Down. In trading-up, a manufacturer seeks to increase the prestige and, thereby, the sales of an established lower-priced product by adding a higher-priced variety with the same or a similar name. For example, a maker of dollar watches may introduce watches to retail at a much higher price. There may be little expectation of selling a large volume of the new watches. But, by promoting them, a quality reputation for the brand name may be fostered which will make the dollar watches more attractive to consumers. Their reaction may be that a producer of high-priced merchandise is likely to make lower-priced items of relatively high quality.

The main purpose of trading-up is to enhance the market position of the established product. Suppose that the watch company in the above example had introduced the higher-priced watches primarily to tap a new market. If an association between the two grades were avoided, the company's action would not be considered trading-up. If the grades were linked by name in the hope that such a move would benefit the more expensive watches, it is unlikely that the attempt to gain a new market would be successful. The addition of a higher-priced item may increase sales of the lower-priced one, but the brand name reputation of the latter is not one of high quality and might detract from the sales of the higher grade. Or, if quality were not determinable by inspection, and sales were made to uninformed buyers, the second grade might sell largely at the expense of the first. If the objective is to exploit a new customer group by adding a more expensive variety, the different grades should be kept separate in the consumer's mind. This may necessitate different and separate sales outlets and different brand names.

In trading-down, a lower-priced variety is added in an attempt to capitalize on the reputation of a higher-priced item through name association. It is hoped that consumers will transfer some of the prestige of the established item to the new one and will consider the latter to be of high quality within its price class. A number of cases of trading-down have occurred in the automotive field. The Packard Motor Car Company, known for its fine, high-priced cars, added lower-priced models which resembled the former in appearance and carried the Packard name. This was trading-down—an attempt to

benefit from the established reputation for quality. Trading-down may be particularly desirable if the market situation has shifted so that the lower-priced item should become the principal one carried. Also, trading-down may help a company to cater to a new segment of the market. While some of the sales of the new variety may be at the expense of a company's higher-priced product, the net gain in sales still may be substantial.

There is a danger that a policy of trading-down, if carried far, may gradually destroy a manufacturer's reputation as a producer of high-quality merchandise. Such a result could come quickly if consumers had unreasonable expectations as to the quality of the lower-priced variety and were disappointed with their purchases. There is a danger, too, that the second grade may sell largely at the expense of the first, so that the manufacturer would fail to realize a larger over-all sales volume. This is more likely to occur where quality is not clearly discernible by inspection of the merchandise. Buyers may consider the lower grade to be the same thing at a lower price. Trading-down usually is unwise under such circumstances. Instead, if a second variety were to be offered, the company might better give it another name and take other precautions to disassociate the two varieties in the minds of consumers.

Reasoning about trading-up and trading-down is not completely applicable to industrial goods. Industrial buyers often can measure quality in terms of cost and performance either by using a product or by testing it in advance of purchase. To the extent that they can distinguish between different grades, they rely less upon the reputation of the seller as an index of quality. With either industrial or consumers' goods, the addition of a new price-quality variety must be based upon a clear understanding of the character of the market demand and the extent to which a carry-over of prestige is likely to occur.

Simplification of the Line. As product lines become more and more extensive, items tend to duplicate one another and older varieties become relatively obsolete. Thus, there is an opportunity for gains from line simplification. Weeding out unprofitable items can open the way for a concentration of sales and promotional effort that may lead to increased sales. The sales-training job becomes easier, and manufacturing costs may be reduced through longer runs. Savings in costs may lead to greater sales through lower prices, if product demand is elastic, or through increased outlays for sales promotion and advertising.

A major factor behind many "crowded" lines is the absence of adequate cost and sales records on the varieties handled. Often an analysis will disclose that a large proportion of a company's sales is concentrated in a few varieties and that many items actually are sold

so infrequently that they are highly unprofitable if they bear their proper share of costs.

A good example of cost reduction through simplification is provided by the experience of General Electric Company's hand-iron plant in Ontario, California. Before the war, this plant produced twenty-three different standard models of hand irons and was able to make 24,000 irons per week. Since the war, General Electric, through its program of product planning and market research, discovered that it could cut its line to four standard models which meet all customer demands. As a result, the Ontario plant was able to boost its output to 60,000 irons per week, more than double the prewar volume, with remarkably little new equipment.

When a product line is far out of hand, a severe reduction in varieties may result in almost phenomenal savings and thus a reduced cost per unit of output.[20] Some years ago, one of the large manufacturers of electric refrigerators reduced by half the number of models produced and, through the resulting manufacturing and distribution economies, was able to reduce its prices $25–$50 on each model retained. Sales increased substantially over the next two years despite the fact that certain competitors likewise cut prices.

Possibilities for savings from simplification depend largely upon the costs of diversification. If costs are not great, even a small advantage in sales gained by having a wider variety to offer may merit retention of all varieties customarily produced. Limits to simplification may be imposed by the relationship with distributive outlets. If exclusive agencies are used, a manufacturer may have to furnish all the varieties which the dealer sells. Paint manufacturers, for instance, usually sell only through exclusive agencies or company-owned retail outlets, and therefore produce a complete line.

The Optimum Number of Varieties. The problem of determining how many varieties to produce is essentially one of attempting to reconcile the relative advantages of offering variety, attended by higher costs, with a more favorable price appeal made possible by the lower costs of a more limited line.[21] The relative importance of vari-

[20] An excellent example of simplification is given in Alexander, Surface, Elder, and Alderson, *Marketing* (Boston: Ginn & Co., 1940), p. 124. It is as follows: "A manufacturer of men's suits who had been making each year one hundred and fifty different models in various fabrics, colors, and weights decided to make only one blue-serge suit, using cloth of single weight and quality. As a result it was further possible to reduce manufacturing cost by from 25 per cent to 30 per cent. These savings enabled him to reduce prices so that twice as many suits were sold as formerly."

[21] "Reducing the number of models and increasing production would enable us to reduce production costs materially, which in turn would enable us to reduce the selling price, which would bring us a larger volume, which would enable us to operate on a smaller margin and so on" (Frank R. Pierce, General Sales Manager, and Charles T. Lawson, Sales Manager, Nash-Kelvinator, as quoted in *Sales Management*, Vol. XLVI, No. 7 [April 1, 1940], p. 22).

ety and price as buying motives will, of course, vary with different firms. To achieve the optimum number of varieties, products must be added when they will increase sales and profits and dropped when demand for them shifts. To these ends, it often is advisable for a company to set up a continuous program for analyzing market data and sales and cost records by varieties.

Reasons for Line Expansion

Manufacturers may add products to their lines for three basic reasons. They may desire (1) to make greater use of their production facilities, to recover fixed costs which would otherwise be unabsorbed; (2) to enhance the salability of their products by handling a complete line; and (3) to combine products so as to minimize risk relative to profit expectations.

Maximum Utilization of Assets. Perhaps the most important reason for adding products to the line is to make fuller use of the various resources of a manufacturing organization. Products frequently are added to use idle capacity. For instance, in the depression year of 1933, the Murray Body Corporation of America began the manufacture of steel beer barrels and stainless-steel products. The Star Equipment Corporation, makers of motors and electrical equipment, used idle plant to make synthetic dry-cleaning units which required the type of equipment already in the plant and the technical and managerial skills of its employees. A desire to take full advantage of the abilities and knowledge of its executives and laborers prompted a manufacturer of sound-transmission equipment to add electric razors and coin-weighing machines which also called for precision work.

Some companies consider their proper field of activity to be the manufacture and sale of products made from a common raw material, and they expand their lines accordingly. This is common in the glass, cork, rubber, and plastics industries. The Owens-Illinois Glass Company originally made only glass containers, but later added many new glass products, including blocks for structural purposes, filter glass cloth, and fibrous glass. Glass makers produce the raw material and make the finished products as well. In industries where the raw material is purchased, the addition of new products requiring the same raw materials may mean that the latter may be bought in larger volume at some saving in unit cost.

By-products are particularly important factors in line expansions in the meat-packing, food, petroleum, coal, and chemical industries. Meat packers use by-products in the production of fertilizer, glue, gelatin, grease, tallow, soap, shortening, and various products made from meat scraps. Smelters and refineries frequently produce paint to use by-products which otherwise would be waste. In the chemical

industry, the utilization of by-products leads to continuous expansion, in that the processing of one by-product may create others. In 1944, Botany Worsted Mills entered the cosmetic field to make use of lanolin, a by-product of wool processing, which is used as the base for creams and lotions.

Products may be added to gain a greater use of a firm's marketing organization. Distribution facilities may be capable of handling a variety of products. The Curtiss Candy Company added cookies, potato chips, salted nuts, and soft drinks which it could sell through the same channels used for its line of candies.[22] The salesmen already were calling on the desired outlets, and they could easily handle the new items.

Some line expansions permit a greater exploitation of the goodwill attached to an established brand name. Many companies have placed numerous products under a "family" brand and have advertised them as a group. Often it is difficult to determine whether the possibility of a greater realization from advertising outlays is the main reason for a given product addition, but certainly it is a condition facilitating expansion.

Desire for a Complete Line. A complete line, in the marketing sense, usually includes products which customers desire to buy from one source. Hence, offering such a group of products may be important in attracting and holding customers.[23] An argument advanced for the merger of the Standard Oil Company of New York and the Vacuum Oil Company was that the latter was encountering difficulty in getting distribution for its lubricating oils through the usual outlets of filling stations because it had little gasoline to offer.[24]

Products usually handled by distributive outlets may constitute a complete line. When radio dealers began to sell household appliances, they preferred to deal with manufacturers who could provide a number of such appliances. As a result, some radio manufacturers added washing machines, oil burners, electrical appliances, and air-conditioning equipment. In some cases, expansion has included products typically handled by the intermediate wholesale trade, although this is less common. One manufacturer of automotive parts and accessories

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[22] Otto Schnering, "Facts behind the Curtiss Candy Program of Line Expansion," *Sales Management*, Vol. LII, No. 22 (November 1, 1943), p. 24.

[23] Overemphasis may be given this consideration by some sources, but its importance cannot be gainsaid. For instance, "The tendency for all customers to concentrate on buying from as few suppliers as possible forces many companies to expand their lines" (Eugene Whitmore, "Expansion Policies of 200 Companies," *American Business*, January, 1945, p. 34). The tendency to concentrate purchases may be particularly strong for small, independent retail outlets; but it should be observed that many outlets, such as department stores, may handle only the "leading" item from several competing lines.

[24] See *The Decline of Competition* by Arthur R. Burns (New York: McGraw-Hill Book Co., Inc., 1936), p. 448.

originally made only a gasoline gauge, but was compelled to expand his line to comprise all the parts included on the dashboard. The desire of automobile companies to buy a complete panel from one source was the principal reason for this expansion.

A complete line may include products related in use. For instance, the International Business Machines Corporation makes and sells punch cards for use in its machines. Customers may expect products made and sold by the same firm to be better designed for joint use, and manufacturers may want their products to be used together to protect their reputations for satisfactory performance.

Diversification. The third general objective in developing a product line is greater security. Westinghouse Electric Corporation has followed a policy of diversification until there are few fields of business activity in which its products are not represented. The company handles extensive lines of both electrical and nonelectrical equipment for the industrial market, as well as numerous electrical appliances sold to consumers.

Many firms prefer to combine industrial and consumer products because the latter, as a group, suffer less drastic declines in demand in times of depression. Union Carbide and Carbon Corporation and the E. I. duPont de Nemours Company both expanded into the consumer-goods field, even though this meant setting up new and separate sales organizations and involved consumer advertising.[25] Manufacturers frequently bring products into the line to avoid the severe fluctuations in sales that often come from being dependent upon one industry. For example, the Baldwin Locomotive Works, in the early thirties, added hydraulic press machinery, water turbines, diesel engines, ship propellors, testing machinery, steel forgings, and castings. Companies often handle products with offsetting seasonals to achieve a more level rate of production and sale. The Philco Corporation added refrigerators in 1939 to help "dealers to offset drastic seasonal variations of radio set sales through year-round selling of companion lines."[26]

While the desire to minimize risk is common, certain line expansions have been aimed at higher margins, even though additional risk was involved. General Mills, Incorporated, has expanded into fields quite unrelated to flour milling, which is characterized by relatively stable demand but low margins. In 1941 the company got into the production of vitamin D, wheat-starch, flavoring agents, and amino acids. In 1946 it introduced household appliances which are high in

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[25] George W. Mathias, "Union Carbide Spreads Its Gains," *Magazine of Wall Street*, Vol. XLVI, No. 7 (July 13, 1940), p. 408.

[26] "Philco Diversifies," *Business Week*, March 18, 1939, p. 23. Philco also added dry batteries and portable room conditioners and entered the television field. The corporation used the slogan, "Philco All Year Round."

risk but also high in margins. The broader line may well offer a more desirable risk combination than continued specialization in milling.[27]

Limitations to Line Expansion

There are important limitations to a policy of line expansion, many of which have been suggested by the preceding discussion.

Maintenance of Quality. Usually a manufacturer cannot make products of widely different qualities with a high degree of efficiency. An organization accustomed to a large degree of tolerance finds it difficult to adapt itself to high-precision work. Likewise, the maker of a high-quality article may find that a skilled labor force cannot adjust itself readily to the time and cost requirements of lower-quality goods. Quality differences among products may create marketing problems, as was pointed out in the discussion of trading-up and trading-down.

Performance of the Sales Force. Expansion of a line often spreads the effort of a sales force over too many products. Certain items are, therefore, likely to be neglected. Salesmen tend to concentrate on those products which are most easily sold, or, if commissions vary, on those which yield the greatest compensation relative to the effort required in their sale. To achieve a balanced sales effort among the different products, more control over the sales force may be necessary. If an expansion of the line calls for the cultivation of additional sales outlets, realignment of sales territories may be in order to make it possible for salesmen to call upon all desirable accounts.

Provision for Service. If the service requirements of a product differ too greatly from those of the other items handled, it may be inadvisable to include it in the line. In certain fields, such as automotive transportation, the seller assumes the responsibility for providing facilities for service. Office equipment, such as business machines, requires the whole gamut of service work, including survey, installation, demonstration, and afterservice.

Channels of Distribution. If the new product is sold to different customer groups, entirely new selling channels may be required. The Briggs Manufacturing Company, a maker of automobile parts and bodies, found it necessary to recruit and train a new sales force to handle plumbing ware which it added to its line in 1935.[28] Plumbing equipment is sold largely through wholesalers to retail outlets. Briggs' former experience was confined to the industrial market in which it sold direct to automobile companies, to a large extent on contract.

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[27] "General Mills of Minneapolis," *Fortune*, Vol. XXXI, No. 4 (April, 1945), p. 117.

[28] D. G. Baird, "How Briggs Built a New Sales Force to Sell a New Line," *Sales Management*, Vol. XXXVII, No. 12 (December 1, 1935), pp. 638 ff.

Promotion. Promotional needs of new products depend considerably upon the extent to which consumer acceptance of the established products carries over to the new ones. From the manufacturer's standpoint, such carry-over is desirable not only at the ultimate consumer level but also at the retail and wholesale levels. If a new product is different in type and function from others in a line, or is sold through different channels to a new market, it may be necessary to assume the expense of a sizable promotional campaign for its introduction.

Organization. When diverse or unrelated products are handled, it may be necessary to maintain separate production and sales organizations. Not only is such duplication expensive, but it further complicates the management task of co-ordination.

Summary

Ideally, the group of products handled by a firm would require the same marketing and manufacturing facilities and provide a desirable combination of risks. Such a perfect result, of course, is rare. Yet, the problem of deciding whether or not to add a certain product to the line essentially is one of determining to what extent its manufacturing and marketing requirements are similar to those of the other products already in the line. As similarity in one of these requirements often is not accompanied by a similarity in the other, the conflicts must be evaluated to determine whether there is likely to be a net advantage in adding the item. Whether the manufacturing or the marketing considerations are to be given the most weight is a matter for each firm to decide in the light of its own circumstances.

In the short run, it may be profitable to add a product offering the prospect of immediate high returns, even though it requires completely new production and marketing facilities. But in the long run, the firm which can make and sell the product most efficiently has the best chance in the competitive struggle for sales. And this firm likely will be the one which added the product because it fitted well with existing operations. The risk objective may or may not give rise to conflicts with the other two. A firm is indeed fortunate when, through product development, new products are designed or otherwise acquired which lessen the risk factor and are fully in alignment in both production and marketing.

Maintenance of a healthy line of products calls for frequent review of cost and sales records to note trends and to ascertain whether each item is actively contributing to profits. Old items should be discontinued promptly when their usefulness is over. Product-development work, if actively engaged in, should furnish new and improved items. A certain flexibility in thinking and action on the part of executives

is a necessary ingredient in both the formulation and the administration of a product policy. It will aid in the attainment of a properly constituted line of goods—one which meets reasonably well the legitimate demands of the market and is well balanced in both manufacturing and marketing requirements.

TIMING OF NEW PRODUCT INTRODUCTION

The timing of introduction of new models is sometimes dictated by industry practice. For instance, in the automobile industry most new models are introduced in the late fall months. In the clothing trades, new models are introduced seasonally to take advantage of consumer purchasing prompted by seasonal changes in weather conditions. In regard to packaging and labeling, changes are likely to be made whenever needed, or when required by legal decisions based on legislation, such as the Food, Drug, and Cosmetic Act. Timing the introduction of new brands, packages, and labels will be considered in a subsequent chapter.

New products may be introduced when they will most contribute to the alleviation of seasonal or cyclical fluctuations in the volume of business. However, it is doubtful whether it would be wise to withhold product introductions solely to attain seasonal stability in sales in the first year. A certain volume of sales would thereby be lost. Furthermore, a delay may give a competitor the opportunity to be first out with a similar product.

This reasoning also applies to withholding new products to attain cyclical stability in sales. A manufacturer of paper specialties at one time had a definite policy of developing new products and holding them until a downward trend in business indicated that a depression was in prospect. New products were then released in the hope that their sales volume would stablize output and thus prevent the unfortunate effects of declining sales in a decreasing-cost industry. In later years the company abandoned this policy, although it was recognized that it had some logical justification. The company's management stated that competition was so strong, even in times of prosperity, that new products were introduced whenever they were ready for the market. In a highly competitive situation, the first concern to put a new product on the market may gain a considerable advantage. There have been instances in which new products have been introduced to attain the position of "first on the market" even before there was complete assurance that they were technically sound and would thus give the expected utility. The advantage gained through initial introduction may be sufficient to justify higher service and warranty costs incurred because of technical imperfection of the product at the time of sale.

Products may be withheld from the market for numerous reasons in addition to those of a technical character—for instance, the degree of obsolescence which a new product will create in old products, the effect which introduction will have on a company's capital commitment in fixed assets, and whether there will be sufficient immediate receptivity in the market to justify introduction. There are always the questions of whether the market is ready for a new product and whether introduction might not be more successful at a later date. In summary, new products may be withheld from the market either for technical, financial, or marketing reasons.

It is frequently stated that new products have been withheld from the market for purposes involving restraint of trade. Collusion among concerns might result in a product being withheld from the market. New products might be withheld likewise through the suppression of a patent. A patent gives the holder the exclusive right for 17 years to prevent others from making, using, or selling the invention covered by it, and thus the right to suppress his patent if he so desires, even though suppression may not be in the public interest. In the *Hearings before the Temporary National Economic Committee, Investigation of Concentration of Economic Power*, Part III on patents, it was implied by the examiners that patents were frequently suppressed and that this might arrest the progress of the industrial arts. Television was specifically mentioned. Both scientists and businessmen, among them Mr. Vannevar Bush and Mr. George Baekeland,[29] strongly asserted that, in their opinion, there was little, if any, suppression of patents, and that competition would probably force introduction of a new product in the market when the difficult and time-consuming step between the acquisition of a patent and the development of a marketable product had been taken successfully, and the market was ready for the product.[30]

The most probable reason for the belief that patents have been suppressed is a lack of appreciation of the time needed to go through this developmental procedure. It may take many years, or even much longer than the life of the patent, if the inventor is well ahead of the times. Furthermore, there are frequently many unpredictable obstacles to overcome, such as patent litigation. While the patent right may possibly be misused for purposes of suppression of new product ideas, its essential purposes are to stimulate invention and to allow for protection while the necessary technical work to develop marketable

[29] Mr. Vannevar Bush was then president of the Carnegie Institution of Washington. During the war he was Director of the Office of Scientific Research and Development. Mr. George Baekeland was Vice-President and Secretary of the Bakelite Corporation and President of two of its subsidiaries.

[30] *Investigation of Concentration of Economic Power: Hearings before the Temporary National Economic Committee*, Part III (Washington, D.C.: U.S. Government Printing Office, 1939), pp. 885 and 1103.

products from the patent is being accomplished, and while provision is being made for the necessary manufacturing facilities.

REVIEW AND DISCUSSION QUESTIONS

1. Define "merchandising," "qualitative" market analysis, "quantitative" market analysis. Should the term "merchandising" be confined to qualitative considerations?
2. How do you account for the manufacturer's activity of a merchandising character in view of the generally accepted concept that production is guided by consumer choice acting through the price system?
3. Contrast the positions of the manufacturer, the distributor, and the consumer in regard to their respective abilities to assume the responsibility for product development.
4. Is there validity to the concept that "necessity is the mother of invention"? Consider new products which have recently come to your attention, in reference to the motivation which may have prompted their development.
5. What are the most fertile and easily utilizable sources of ideas for new products or product improvements? Apply this question to different types of products, including foods, clothing, and consumers' durables, and to materials and supplies for manufacturers.
6. Is overcapacity a normal or an abnormal condition in American industry? What alternatives for inducing the utilization of capacity does a manufacturer have open to him when operating under a condition of overcapacity for present output?
7. Review the phraseology of the General Foods Corporation idea submittal form carefully. Why is such an instrument needed? What does its use accomplish for the corporation? What other arrangements between the manufacturer and the independent inventor might be made whereby the interests of both parties would be protected?
8. Explain the concept of a "complete line." How would you determine what a complete line should include in a given situation?
9. Simplification of a line of products often achieves substantial savings. Why do manufacturers let their product lines get in a position where simplification can have such desirable results?
10. Principal reliance on price competition, on production economies, and on product development might be considered as alternative means for securing competitive advantage and a profitable level of operations. What advantages do you see in utilizing product development over the other alternatives?
11. "Design piracy is neither legal nor in the public interest." Comment.
12. A great American scientist said that in many years of experience he had never known of a bona fide case of patent suppression. A prominent businessman said that he could not conceive of a patent being suppressed when it could be used. Why do many people believe that

patents are often suppressed? What legitimate reasons are there for withholding new products from the market?

13. At times, economists stress the factor of consumers' ignorance regarding the multiplicity of products available to them and the consequent opportunity for manufacturers to induce the purchase of products which imperfectly meet consumers' needs and desires. Comment.

14. Product development has been called a "philosophy of management." In this characterization there is the implication that the motivation which spurs businessmen to develop products is more than the desire to compete successfully. Do you agree?

15. Certain antibiotic drugs, such as aureomycin and penicillin, have been found exceptionally effective in combating human diseases. In 1949 a group of scientists discovered, quite by accident, that these drugs may also possess important nutritive qualities when used to augment the feed of farm animals. In preliminary experiments, significant weight gains were observed in groups of these animals when fed a normal diet to which had been added small amounts of these drugs. These experiments suggest the use of antibiotic drugs as an addition to prepared animal feeds.

    What are the principal developmental steps which a company should take in an attempt to realize upon the product improvement suggested in the above paragraph?

16. The dairy products companies have been attempting for many years to develop a satisfactory process for concentrating milk. To date there appears to be little agreement in the industry on whether a frozen or a liquid concentrate is better, either technically or marketwise. Recently National Dairy Products, Inc., introduced a fluid concentrate which decreases volume to about one third. Two parts of water are added to one part of concentrate to reconstitute the milk. Two competing concerns are reported to be near the introductory stage for a frozen concentrate. Thus the problem of the form which the concentrate should take and those concerned with its marketing have not been solved.

    What factors should be considered in an attempt to determine whether a concentrate should be put on the market and, if so, whether it should be in frozen or liquid form? (See "Cow Concentrate," *Business Week,* December 2, 1950, p. 86.)

17. Dr. Karl T. Compton, President, Massachusetts Institute of Technology, said: "Income appropriated to research is not spent; it is invested. The question is not whether a company can afford to engage in research, but whether it can afford not to, particularly when it is realized that after this emergency has passed orders for the normal consumer market must be found to replace government orders. This market can be created only by new and better products" (National Association of Manufacturers, *2% for Research* [New York, 1941]).

    Why is this statement by Dr. Compton particularly true when applied to the American economy?

18. Review one or more of the following short articles which appeared in *Business Week* in reference to product development: "Fiberglas Seeks Wide Consumer Market," December 25, 1948, p. 48; "Making Wood Out of Sawdust," July 23, 1949, p. 31; "New Threat to Cotton," September 17, 1949, p. 46; "Plastic Milk 'Bottles' Come," September 17, 1949, p. 50; "New Drugs: Health for Patients, Gamble for Makers," March 25, 1950, p. 26; "All Wrapped Up in Synthetics," November 18, 1950, p. 75.

    Attempt to isolate some of the product and market problems faced by the manufacturers of these products. What solutions to these problems were indicated?

19. General Mills, Inc., is a large manufacturer of branded food products, which it sells under such trade names as "Gold Medal Flour," "Wheaties," and "Softasilk." The company uses the normal channel of distribution for its food products, selling through grocery wholesalers and retail outlets. The company has a Home Service Department through which it gives home economics advice and counsel to American housewives in the name of Betty Crocker. This name has been so widely publicized through magazine, radio, and newspaper advertising that a company survey showed that 97 per cent of all women in America know the name Betty Crocker, 54 per cent correctly associate the name with the company, and 44 per cent regard Betty Crocker as the most helpful home counseling personality in the country.

    Beginning in 1940, when the government was engaged in expanding the production of war goods as fast as possible, General Mills first accepted contracts for the manufacture of certain naval ordnance items —mainly, high-precision fire-control apparatus, torpedo directors, and radar components. For over fifteen years prior to 1940, General Mills had maintained a Mechanical Division for manufacturing an increasing part of its requirements of special processing and packaging machinery. As a result of its war production, this division grew from a small operation to one employing 1,600 people and occupying 350,000 square feet of floor space.

    At the end of the war, many government contracts were canceled; and the prospects indicated few, if any, further orders for naval ordnance. Facilities were far in excess of the company's requirements for machinery and equipment, but General Mills officials wished to maintain the plant and its organization. The company had foreseen the problem and, based on a careful study of alternative uses, had decided to use the plant for the production of small electrical home appliance items, particularly those having to do with food preparation. By the end of the war, company engineers and marketing analysts had been at work for two and one half years designing the appliances. The first two products were an electric iron called the "General Mills Tru-Heat Iron" and a pressure cooker called the "General Mills Pressure *Quick* Saucepan." Each of the new products was to be of improved design and, if possible, to incorporate some new principle of operation or service.

    General Mills executives decided to call the new items "General

Mills Appliances" rather than to coin and promote a new trade name as they had done for some of their cereal products. This decision was motivated by the fact that the company had used institutional advertising, and this type of advertising was to be continued. It was thought that the new line would gain the maximum benefit by being associated with the General Mills and Betty Crocker names, both of which were well known to consumers.

Attempt to appraise the company's decision to enter the appliance field.

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Chapter III

PRODUCT AND MARKET TESTING

IN THE first chapter, it was noted that merchandising includes those activities involved in the adjustment of goods to consumer needs or desires. It was likewise noted that this adjustment may be either qualitative or quantitative in nature. We shall now consider those activities of product and market testing through which business concerns are enabled to make the necessary qualitative adjustments.

Technical Testing versus Consumer Testing of Products

A worth-while distinction can be made between technical testing and consumer testing of products, although they are both concerned with the adjustment of product to the characteristics of demand. Through testing of a technical nature, a manufacturer is able to compare the physical characteristics of his products with those of his competitors and to come to some conclusion as to their comparative merits. He is likewise able to determine, within reasonable limits, both the absolute and the relative performances of products under simulated conditions of use. This type of testing may be done either at a manufacturer's plant or, in order to secure entirely unbiased judgments, in commercial laboratories.

Consumer testing, in contrast, comprehends those activities whereby consumers' attitudes toward products are determined. Such testing has aptly been called "market analysis for product control."[1] It may be done at three different levels: first, prior to the introduction of a product on the market; second, through preliminary introduction in carefully selected test markets; and, third, as a checking-up device after a product has been on the market for some time. The first of these may be called "pre-testing" or consumer testing per se; the second, "preliminary market testing"; and the third, "post-testing."

These three levels of testing can be considered most effectively in inverse order. First, it should be recognized that all products purchased by consumers are under continual informal testing during the

[1] Donald R. G. Cowan, "Market Analysis for Product Control," *Proceedings of the 1938 Ohio Conference of Statisticians on Business Research, November 12, 1938* (Columbus: Ohio State University, 1938), p. 16.

period of use. Sales of competing manufacturers are therefore an indication of consumer choice based upon experience in using products. While relative sales volume is a constant source of information on competitive position, it does not answer the question as to *why* people preferred one product over another. A manufacturer must therefore seek more detailed information to enable him to keep his products in the forefront in style, utility, or both.

A constant awareness of consumers' attitudes toward products is needed because changes in attitude are likely to accompany improvements in competitors' products, and because important changes may take place in the desires of the consuming public. As a result of either of these factors, a manufacturer's products may become less acceptable. Sufficient attention to consumers' attitudes may furnish information for redesign of products before loss of acceptance materially affects sales volume. Perhaps a protracted loss in sales can be traced to other factors, such as accessibility or price; but in most instances, assuming products are available for purchase, the most likely reason for a loss in market position is a change in consumers' evaluation of competing products in reference to their prices.

Preliminary market testing is accomplished through placing new products on sale in test markets which are carefully selected to represent a reasonable cross section of the total potential market. Through this procedure, accompanied by adequate promotional effort, a product is brought directly into competition with similar products, and thus relative sales volume gives some indication of consumer preference. Repeat purchasing under normal sale conditions, rather than initial purchasing brought about through distribution of coupons or samples to secure initial trial of a product, is of most significance. In fact, a manufacturer cannot be sure of market acceptance until repeat purchasing has become habitual. Market testing should not, however, unduly delay placing a product on the national market. Sales data only indicate preference for a product as a composite of qualities; such information does not indicate *why* one product is preferred over another. Nevertheless, sales results in test markets have proved very useful in indicating whether or not a manufacturer can safely go ahead with national distribution. If a product fails to "take" in the test markets, it may be advisable to investigate further the reasons therefore through pre-testing procedures.

Pre-testing differs from the procedure just outlined in that the product is not offered for sale. Rather it is submitted to potential consumers for the express purpose of determining their reactions. At times a number of competing products are submitted in the same experiment, and the consumer is asked to state his preference. Either new products or old products which are undergoing drastic changes may be tested in this way. The large food companies, for instance,

do everything possible to make sure that new products will be acceptable to consumers *before* they are placed in test markets or in the national market. They consider that the capital commitments necessary for promotion and physical distribution of a new product are too great to permit of haphazard product development.

Consumer product testing is a continuous process. It may begin with pre-testing before a new product is placed on the market and continue as long as the product is offered to the public. Emphasis on new product testing should not, however, be allowed to obscure the fact that old products need testing likewise; for in a dynamic situation, such as we find in the field of product development, a product can lose its pre-eminent position in the market quickly. Only through constant technical comparisons of a product with those of competitors and through continual study of consumer reactions can a manufacturer keep his products in an acceptable position in the market.

There are many ways in which a manufacturer may arrange for consumers to test his products. It may be done through the use of consumer juries or panels, experiments in retail outlets, or sales in test markets. In certain instances, a product has been taken directly to consumers who have been allowed to use it; and, through detailed interviews, information has been secured on their reactions. Another widely adopted method is the use of mail questionnaires, through which the consumers' attitudes toward products already in use are determined. Another procedure which has been used in the automotive field is to test innovations by placing them initially on the line of cars which is of least importance to a company; for instance, on the De Soto or the Pontiac rather than on the Chrysler or the Buick. Later, if such an innovation "takes," it may be placed on all of a company's cars. These methods of consumer testing, the problems which their use presents, and their advantages and disadvantages will be considered shortly.

Significance of Product Testing

Prior to a further discussion of testing procedures, it may be desirable to consider the significance of product testing. First, it should be reiterated that product testing is a part—an important part—of product development. As such, testing partakes of the general significance attributed both to new product development and to product improvement. The over-all objective is to provide a fundamentally sound basis for a manufacturer's marketing program. More specifically, the principal objective of testing is to glean valuable information which will enable a manufacturer to redesign his products so that they will gain a wider and quicker acceptance in the market, thereby attaining an increased sales volume. Through testing activities, there is greater

likelihood that a manufacturer will improve, or at least retain, his competitive position in the market.

Product testing has particular significance in view of the fact that substantial capital commitments are usually made both for promotional effort and for physical distribution when a product is introduced on the national market. These are in the nature of developmental costs. If the product being introduced does not prove acceptable to consumers, the loss involved may be of considerable magnitude. Furthermore, a manufacturer's position in the market may be seriously weakened by the introduction of an unacceptable product. Ill will for the company, distrust of the quality of its other products, and unfavorable word-of-mouth advertising may result. Later introductory campaigns are likely to be less immediately successful. In other words, the significance of product testing is measured in part by the high cost of errors which might have been avoided through testing and redesigning a product prior to its introduction.

Product testing also can contribute to the solution or alleviation of other management problems. For instance, testing brings to light numerous facts which are useful as advertising appeals and selling points.[2] The results of testing likewise give confidence to a selling organization through proof of merit or superiority of products and of their ability to compete effectively. Through product testing, advertising claims made for a product may be justified. This is of particular importance in view of the responsibility placed upon manufacturers for truth in advertising by the Wheeler-Lea Amendment to the Federal Trade Commission Act. Manufacturers are not allowed to use advertisements which are misleading in any material respect, or which fail to reveal facts material in the light of representations. Therefore, the claims made in advertising copy must be fully capable of justification. After the amendment was passed, the validity of claims made by many manufacturers was challenged by the Federal Trade Commission, and testing activities were thus accentuated. As an illustration, one of the large food companies made substantial financial outlays for investigation in medical laboratories to determine whether its advertising claims that certain cooked cereals alleviated constipation could be justified.

Product testing may likewise aid a manufacturer in reference to service on his products, in the fulfilment of warranties, and in pricing. Obviously, less service will be needed on products which have been

[2] The following appeared in an advertisement of the Simmons Company, makers of the Beautyrest Mattress: "New Beautyrest lasts 3 times longer! Ten different types of mattress, from $19.75 to $39.50, were crushed and mauled by a 200-lb. roller at the United States Testing Co., Inc., Hoboken, N.J. After 489,000 poundings, the New Beautyrest was still in sound sleeping condition. No other mattress stood up even one-third as long! That's why the 'luxury comfort' of Beautyrest is guaranteed for 10 years' service, although under normal use it should last far longer."

fully tested in advance and, therefore, are more technically capable of meeting the reasonable expectations of consumers. Most technical products sold to consumers, such as household appliances, carry manufacturers' warranties, which must be fulfilled if a product fails to perform satisfactorily. For products which have been effectively tested, manufacturers will be called upon less frequently to make good on their warranties. Technical testing, which reveals the merits of a manufacturer's product in relation to those of his competitors, and testing by consumers, which shows how they would rank competing products as to quality, furnish a basis for comparative pricing.

TECHNICAL TESTING

Analysis versus Performance Testing

A distinction should first be made between *analysis* testing and *performance* testing or, stated more simply, between what a product is and what it will do. As manufacturers produce to specifications, the problem of analysis testing, as far as their own products are concerned, is not one of determining composition of finished products in the sense of finding out what they are made of or how they are made. Rather the problem is one of maintaining product uniformity after the specifications have been decided upon. Thus a manufacturer engages in analysis testing all through the manufacturing process. Such testing obviously is not a marketing function. A manufacturer may, however, have his finished products check-tested, perhaps by a commercial laboratory, through the selection of a sample from distributive agencies, to discover whether uniformity was, in fact, achieved, or whether deterioration of the product had taken place subsequent to shipment from the factory.

Another common practice is to purchase products made by competitors, disassemble them, and thus determine their composition and relative merit in reference to the raw materials used, their processing, or the manner of their assembly, mixing, or other form of combination. Distinct advances in product designing may result from the information gained from technical testing of this character. However, the other question as to performance of the product, either relative or absolute, will not necessarily be answered by this procedure.

A strong case can be made for the assertion that performance testing—the determination of what a product will do for the consumer—is of more importance than analysis testing. As one writer said: "We believe it would make no difference if a carpet were made of hay, if that carpet had acceptable appearance, wearing quality, cleanability, color fastness and met all the other requirements demanded of a good carpet."[3] The problem would be to determine

[3] "'What It Does' More Vital than 'What It Is,'" *Women's Wear Daily*, September 30, 1937, p. 20.

whether a carpet made of hay meets *all* the requirements of a good carpet. One way to discover the necessary facts would be to put such carpets into the hands of an adequate sample of consumers for use and then to examine the carpets periodically to determine whether they retained their appearance, were durable, and otherwise adequately met consumers' requirements.

The obvious difficulties involved in this procedure are those of cost and time, particularly for products of a durable character. A decade or more might be required, in some instances, before a full history of use of any particular piece of equipment could be secured. Furthermore, this procedure would necessitate the full co-operation of a group of consumers which might not be forthcoming. Therefore, the manufacturer attempts to overcome these difficulties by simulating use conditions in a laboratory, and then by giving the product as much use in a few hours or days as it would nomally get in many months or years. In order to follow this procedure, he must first know, as far as possible, the environmental factors surrounding use by consumers and also the manner of use, including frequency, duration, and intensity. The second step is to provide equipment which will simulate use conditions. Commercial laboratories have been generally effective in doing this. For example, machines have been developed through which snag tests, abrasion tests, and elasticity tests are made on women's hose. For the testing of mattresses, a machine was devised which looks like a giant lawn roller. This roller, manipulated by a belt drive, is pushed back and forth across the mattress approximating the pressure which might be given by the human body. A piece of equipment called a "fadometer" was devised to test fabrics for color fastness.[4] Still another illustration of simulating conditions of use is furnished by the "proving grounds" of General Motors, Chrysler, and other automobile manufacturing companies. Cars are subjected to particularly severe road conditions in order to determine how they perform and stand up under such conditions.

The question immediately arises as to whether conditions of use can be simulated with a reasonable degree of accuracy in laboratories or on proving grounds. On this point there is likely to be much difference of opinion, for the difficulties involved are great, and the experience of different individuals may have been favorable or otherwise. The correct answer is likely to be of the "yes"-and-"no" variety. The ease of simulation depends upon the type of product and the amount of diversity in the manner and environment of use. For capital

[4] These illustrations were taken from Allen L. Brassell, *The Commercial Laboratory Aids the Consumer* (Hoboken, N.J.: United States Testing Co., Inc.). Other illustrations are given in Mabel Taylor Gragg, *Merchandising Testing as a Guide for Consumer Buying*, "Business Research Studies," No. 22, Vol. XXV, No. 6 (Boston: Harvard University, Graduate School of Business Administration, Bureau of Business Research, November, 1938). A primary source of illustrations is the *Journal of Research of the National Bureau of Standards* (Washington).

goods, the problem is less difficult than for consumer goods, as use conditions do not vary so greatly, and the manner of use is determinable in less time and at less cost. Rational motives govern purchasing to a greater extent, and *performance* means much the same thing to all users. Equipment is often sold under a guarantee of performance.

For consumer goods, in contrast, conditions of use may vary greatly. Certain items of household equipment, for instance, get quite different treatment from large and from small families. Electric refrigerators and residential heating equipment get substantially different intensities of use in the southern and in the northern states. Lubricating oil for motor vehicles meets different conditions in the northeastern states, where good roads abound and severe weather prevails during the winter months, and in the southwestern states, where fewer roads are hard-surfaced and are therefore more dusty, and where temperatures are less variable. There would be even greater variations in use conditions, and in the opinions of customers as to what constitutes acceptable performance, in clothing, curtains and draperies, and bedding. On the other hand, there are some products for which neither the manner of use nor the environmental conditions surrounding use vary so greatly. And the consumer can neither harm nor conserve certain products while they are in service. Radiators, lighting fixtures, and insulation may furnish examples. Sheer technical merit is of greatest importance; but, even for these products, use conditions would show some variation, and the problem of simulating them would present some difficulties.

From the foregoing discussion, the difficulties encountered in the first two steps of performance testing—that is, securing information on the actual conditions of use, and simulating those conditions in a laboratory experiment—are apparent. After the testing is done, the next step is to check the results with actual service results to determine whether a significant correlation exists between them. If a positive correlation has been established, confidence in the efficiency of the test increases, but it should not lead to unwarranted conclusions. The results are significant only in relation to the conditions of use comprehended in the test. For instance, there may be a positive relationship between the results of tests made on the fadometer previously mentioned and the actual fading of textiles when in use by the consumer. However, this test tells exactly nothing about the extent to which the textiles will shrink when laundered. Experimental tests of fertilizers on a loam soil planted to potatoes may be of little value as an indication of the effect of fertilizer application to a clay soil planted to wheat. While this may be considered an obvious conclusion, still it should be stressed, for simulated use conditions seldom comprehend *all* possible use conditions; and there is always a question

as to the legitimacy of imputing certain test results to different use patterns.

While the difficulties of simulating use conditions in laboratories or on proving grounds are many and varied, the value of performance testing as a tool of management should not be seriously doubted. The alternatives are simply (1) to *assume* that a product will perform satisfactorily and gain consumer acceptance, and then to go ahead with promotional effort and physical distribution, with the attendant risk involved; or (2) to go through the costly and time-consuming process of actually conducting an experiment in homes or factories to determine the performance of a product during its life span. These alternatives may, at times, provide the best methods of procedure, but not the most practical ones in the majority of instances. The conclusion seems fully warranted that technical testing to determine the likely performance of products in use has an important part to play in product development. Nevertheless, this testing must be done scientifically, with all that that word connotes, if the results are to be relied upon by management.

The Use of Independent Testing Laboratories

There are various types of laboratories, all concerned with product testing but operated under different auspices. The manufacturer may have his own laboratory in which he continually tests his products and those of his competitors. An example is furnished by the testing kitchens of the food companies. He may, in contrast, use commercial laboratories on a contract basis. He may likewise be aided by technical laboratories established by advertising agencies to serve clients. In addition, numerous laboratories have been established to protect the retailers' or consumers' interests. Among them are those of large department stores, publications, and consumer groups. Some magazines —for instance, *Good Housekeeping*—maintain laboratories in which the goods advertised in their pages are tested. Consumers' Research, Incorporated, tests products in order to secure information to be used as the basis for purchasing recommendations to its members. Professional associations, such as the American Medical Association and the American Dental Association, maintain laboratories to determine the medicinal value of products. Many devices, systems, and materials are tested for safety by Underwriters' Laboratories, Inc.[5] While the above laboratories may serve different groups, all are engaged in

[5] "Underwriters' Laboratories, Inc., is chartered as a nonprofit organization without capital stock under the laws of the State of Delaware to establish, maintain, and operate laboratories for the examination and testing of devices, systems, and materials. Founded in 1894, the enterprise is sponsored by the National Board of Fire Underwriters, and is operated for service, not for profit" (*Testing for Safety* [Chicago: Underwriters' Laboratories, Inc., 1945]).

activities to determine either the composition of products or their performance under simulated conditions.

The question arises as to whether a manufacturer should retain one of the commercial laboratories for product testing. While individual circumstances vary greatly and generalizations are thus risky, still a good case can be made for the use of a commercial laboratory, whether or not the manufacturer has laboratory facilities of his own: First, commercial laboratories are specialists in product testing, and are likely to be effective because of that fact. Second, they may be more unbiased, and thus more objective in their investigations, than are manufacturers' laboratories. Third, they have been very successful in the development of specialized equipment for testing purposes. Fourth, the commercial laboratories, in a sense, serve as arbiters between the producer and the consumer—a third party in whose judgment both the producer and the consumer may have confidence. Fifth, the consumer is likely to have greater confidence in product claims based on testing done by an independent concern. Finally, testing is likely to be less costly if done in a commercial laboratory, particularly for small and medium-sized concerns. These arguments for the use of a commercial laboratory center about two general advantages: (1) its greater independence and objectiveness, particularly in the eyes of the consumer; and (2) its efficiency gained through specialization.

A further possible advantage is that certain laboratories offer a certification plan which involves a seal of quality for use in advertising and other promotional work. The plan operated by the United States Testing Company, Inc., is described as follows:

CERTIFIED MERCHANDISE PLAN

The Plan

The Testing Company operates a division devoted solely to certifying products manufactured and distributed by the members of its Certified Merchandise Group. The members of this Group have all pledged to maintain quality standards and to abide by the regulations of the Certification Plan.

Before any manufacturer can become a member of the Group and have his product certified, he must submit it for test and analysis. If the product rates sufficiently high in laboratory tests for raw material content, construction, and serviceability, and if the promotional claims made by the manufacturer are found to be valid, the product is accepted for certification and is awarded the Seal of Quality. The manufacturer's product then becomes a member of the Certified Merchandise Group. He enters into an agreement with the Testing Company permitting him to identify his product with the Seal of Quality on labels, hang tags, and in advertising, and the Testing Company, in turn, assumes the right to conduct quality control and check tests on the certified product.

The agreement is in the form of a signed contract listing the responsi-

bilities of both parties and covers a basic period of one year; it calls for a stipulated monthly fee to be paid by the member manufacturers, this fee being based upon the volume of testing that will be required for the particular product.

Standards and Methods of Testing

The standards employed in the Certification Plan are, wherever possible, taken from existing specifications. The following societies, agencies, and specifications set the standards and methods of testing that are followed in the laboratory on materials that are applicable: American Society for Testing Materials; American Standards Association; Society of Automotive Engineers; American Medical Association; Commercial Standards —National Bureau of Standards; American Association of Textile Chemists and Colorists; United States Pharmacopoeia; Federal Food and Drug Act; American Dental Association; and Army, Navy, and Federal Specifications.

Where there are no existing standards, the Testing Company conducts analytical and performance tests and then establishes quality standards for the product being tested. Where no established method of testing exists, the Research Department designs suitable apparatus that is then built in the Testing Company's Precision Instrument Department.

Check Testing and Policing

In order to insure that product quality is continually maintained in the interests of the consumer, the Certification Plan stipulates that members of the Testing Company's Consumer Panel make monthly purchases of the certified product on the open market. For the purpose of controlling the quality of the material in the manufacturer's plant, samples are also taken each month from the production line. Both series of samples are then subjected to laboratory tests to determine whether or not they conform with the certification standards of construction and performance. Test reports showing the results of these tests are issued monthly to the Group member. Since the certification and the Seal of Quality are actually probationary awards, dependent upon the product maintaining its quality standards, the manufacturer is immediately notified of any deterioration of quality so that he can take steps to readjust methods of production. Failure to do so results in the withdrawal of Certification.[6]

A number of factors in reference to this plan should be carefully noted. First, the laboratory tests products for raw-material content, construction, and serviceability under a contract with the client. Second, samples for testing are taken *both* from the production line and from sales agencies. Third, failure to maintain quality leads to withdrawal of certification. Furthermore, "the United States Testing Company, Inc., itself, assumes responsibility for the maintained quality standards of certified products."[7] Therefore, the consumer

[6] This material was taken from a promotional pamphlet entitled *Certified Merchandising Plan of the United States Testing Company, Inc.*

[7] Advertisement of the United States Testing Co., Inc.

has double protection in that he has not only the warranty of the manufacturer but also that of the testing laboratory.

Another feature of the plan protects both the retailer and the consumer. If the purchaser of a product, after use, believes that it is of faulty construction, he can complain to the retailer from whom it was purchased. The retailer can return the product to the manufacturer, who can send it to the testing laboratory for retesting. The objective of retesting is to determine whether the article was of inferior quality when purchased or whether its failure was the fault of the consumer. Perhaps the product was abused or subjected to unreasonable use conditions. In any event, the laboratory determines the party at fault, and the consumer is reimbursed if his claim is considered to be justified.

In summary, the independent laboratory has an important service to offer to the manufacturer in product testing, in recommendation or certification, and, possibly, in retesting to establish responsibility for defective merchandise. Whether this work could be done in a manufacturer's own laboratory with equal effectiveness is questionable. There would be specialization in either case. The independent laboratory specializes in product testing as such. The manufacturer's laboratory could concentrate on one product type by testing his own products and those in direct competition with this type. A manufacturer might reasonably argue that the competitive aspect of product development, including testing, requires secrecy that is less difficult to maintain if work is done by the company itself. But the manufacturer's laboratory is not an adequate substitute for an independent laboratory from the consumer point of view, for it cannot serve as a trusted third party. In order to attain a position of complete impartiality, there should not even be a principal-client relationship between the laboratory and the manufacturer. However, unbiased action by the laboratory may reasonably be assumed if it is well known and has a good reputation to protect. It simply cannot afford to recommend or certify a client's products unless quality is well maintained, unless only justifiable claims are made in advertising and other promotion, and unless redress following legitimate complaints is promptly and cheerfully accorded the purchaser.

The validity of certification or other product recommendations by laboratories depends almost entirely upon the effectiveness of testing procedures. Altogether too frequently, products have been endorsed by organizations established to "protect" the consumer, by consumer associations, by publications, and, perhaps, even by commercial laboratories without the necessary background of effective product testing. In at least one instance, the Federal Trade Commission charged that recommendations were not based upon adequate testing of products. Unfortunately, consumers usually are not in a position to know

whether testing has been done well. Without proper safeguards, product recommendations may provide a disservice rather than a service to them. The recent improvement in product-testing procedures and equipment should be of immeasurable aid in product development, improve the "quality" of recommendations as a guide to purchasing, and thus benefit both manufacturers and consumers.

CONSUMER TESTING

We now turn from technical testing to a discussion of consumer testing of products. As noted previously, all products are continually being tested by consumers in the process of use. Inevitably, people react either favorably or unfavorably to any product or brand of product in use for the first time. There may be no conscious reaction to products or brands habitually used so long as they give the expected utility. But failure to do this will cause a prompt and unfavorable reaction. For instance, if a man's watch fails to keep correct time, and he thereby misses an important appointment, or if his car fails to start in the morning, his reaction is immediate and often violent. This is product testing under normal conditions of use. When products are sold initially in test markets, they are likewise tested informally by consumers under normal use conditions. Manufacturers also may use pre-testing to *induce* consumers to test products in advance of placing them on the market. This is not testing under normal conditions of use, although such conditions may be closely approximated in the case of food or drug products. Pre-testing, therefore, holds an intermediate position between testing under normal conditions of use over the life span of a product and technical testing under simulated conditions of use in a laboratory. In pre-testing, testers *are* consumers, but actual use conditions are not fully approximated. Pre-testing might be termed "experimental use" of products by a sample of actual or potential users.

Consumer testing, for the purposes of our discussion, will include not only actual testing by consumers either after normal purchase or under conditions of experimental use, but also those activities aimed at discovering consumers' attitudes toward products. The thinking which prompts these activities is vividly expressed in statements such as the following: "*The mind of the buyer* is the *raw material* from which sales are made"; "There is only one person qualified to say *just* what the motorist prefers and that is THE MOTORIST HIMSELF"; "Your car as *you* would build it."[8]

An incident from the product-development experience of a large

[8] These statements were taken from various publications of the Customer Research Staff, General Motors Corporation, Detroit (italics added). They can probably be attributed personally to the late Mr. Henry G. Weaver, for many years Director of the Staff.

chemical manufacturer illustrates the importance of these activities. This company developed in its laboratories an antiseptic which tests proved to be of superior quality as a germ killer and deodorant. The antiseptic was almost colorless and entirely odorless. The manufacturer thought that these properties might appeal to consumers, but preliminary testing indicated strongly that consumers were so accustomed to the usual sharp, pungent odor and taste of antiseptics that fluids without such properties were considered doubtful germ killers and deodorants. As a result, a substance was added to furnish a pungent odor and taste, although this addition increased the cost and made no technical improvement in the product. Consumer testing serves to confirm or deny the conclusions reached by laboratory personnel about the market acceptability of products. Consumer testing is needed as well as technical testing, for it is very difficult to predict in advance what characteristics consumers will desire in products. Problems and procedures of consumer testing will now be considered in some detail.

Problems in Consumer Testing

Prior to an analysis of the procedures followed in consumer testing, a brief discussion of the most difficult problems involved may be helpful. A basis for the evaluation of procedures will thereby be provided, for the effectiveness of any procedure depends, in large part, on whether certain problems are recognized and solved.

The first problem, and often the most difficult, is the selection of an adequate sample of consumers to whom products will be submitted for testing purposes or to whom questionnaires will be sent in reference to products already in use. A sample should have the statistical attributes of reliability and proportionality. Reliability refers to the size of the sample, while proportionality refers to its composition. Through the use of statistical formulas the size of the sample needed under particular circumstances can be computed. Or the required number can be determined by noting the consistency of the information produced by successive tests as they are made. When the results become stable—that is, when the addition of further increments to the sample has little, if any, effect on the results—then a sufficient sample has been used. The problem of proportionality must be approached by studying the nature of the potential market. The sample must be an honest replica of the potential market for the particular type and class of products being tested. Obviously, it would be folly to use as testers individuals who could not, as a result of environmental conditions, use a product, or who could not afford to buy it. Only through investigation of the potential market can a truly representative group of participants for a test be selected.

A second problem, one of equal importance, is to attain the necessary supervision and control in experimental testing so that extraneous factors will not enter and invalidate the results. For instance, independent judgment on the part of each participant in a test is necessary; therefore, controls are frequently devised to assure that the reactions of one participant cannot be influenced by the reactions of another. When testers are asked to try two or more competitive products, it is common practice to remove all distinguishing marks, such as brand names, so that judgments will not be swayed by the source of the product, previous advertising claims, or reactions from previous use.

These examples may suggest other associated problems. Selection of the location for testing work assumes significance, for control can be exercised more effectively in some places than in others. A good case can be made for testing under environmental conditions surrounding normal use, i.e., testing in homes for food products and consumer durables and in offices for office equipment and supplies, probably on the basis of written directions to the participants rather than by direct, personal supervision by company representatives. Written directions may not be an adequate substitute for personal supervision. At least, difficulties of control and supervision are much greater than when participants are assembled for testing purposes. Thus a conflict exists which requires attention and, if possible, adjustment when plans are being made. More will be said about these problems later. Here it is sufficient to note that they cannot be avoided, for product testing often involves experimentation, and rigid controls are needed just as in laboratory experimentation in the physical sciences.

A third general problem—one of equal magnitude to those previously mentioned—is that of securing true answers to the questions asked, either in interviews or in questionnaires. Meeting this problem successfully requires unusual understanding of human reactions and motivations, as well as a fertile imagination. Interviewers must be trained to handle the respondent in such a manner that *his* reactions are secured in the necessary detail. Oral questions must not be stated in such a way that they appear to call for a certain reply, and thereby substitute the attitude of the interviewer for that of the respondent. Most people can be influenced and directed in their answers, and will be if the interviewer is not careful in his approach. Similarly, written questions can be devised either to suggest certain answers or to fail entirely to elicit the type of information desired. Both research workers and practitioners in marketing-research methodology recognize that only slight changes in the wording of questions may lead to unexpectedly large variations in results. Thus both the development of materials and procedures for the training of interviewers and the con-

struction of questionnaires require not only painstaking work over long periods of time but also sound judgment.

Interview procedures and questionnaires should be carefully tested before being widely used to see if they will secure the desired information. Only a small sample of respondents is necessary for this purpose. Untrained interviewers and poorly constructed questionnaires will not secure information of acceptable quality for the use of management. The importance of this general problem now is being recognized, and progress is being made in its solution; but there is still much slipshod work in this field by business concerns and research agencies.

A fourth general problem is to determine the terms of measurement of consumer acceptance of products. Consumers' attitudes can be indicated in terms of absolute or comparative sales volume, in terms of data on consumers' statements in reference to products, or in terms of preference after a comparison of two or more competing products. Decisions as to the type of data desired will largely indicate the method to be used. For instance, sales volume will indicate whether consumers liked a product. Repeat purchases are an even better indication. Still, such testing will not furnish information on *why* consumers found the new product acceptable, or *whether* they would like it even better if changes were made in its composition or appearance. Obviously, other factors, such as price, experience with other brands, and suggestions made in retail outlets affect the sales results. Therefore, explanatory statements by those who participate in tests as to their indicated preferences may be needed. Measurement in terms of purchases in test markets may well follow, for a manufacturer can never be sure of the extent of consumer acceptance for his products until this sort of evidence is accumulated.

Procedures Used in Pre-testing

It was previously stated that consumer testing may be done at any of three levels: first, prior to the introduction of a product on the market; second, through preliminary introduction in test markets; and, third, as a checking-up device after a product has been on the market for some time. The first of these was called "pre-testing," the second, "preliminary market testing," and the third, "post-testing." The procedures which will now be discussed are used primarily for pre-testing, although certain of them may be used for post-testing also. They differ in matters of location, size of the sample, composition of the sample, and terms of measurement, as well as in the manner in which information is secured. They are similar in that each procedure furnishes a jury or panel to test products.

Testing by Company Executives and Employees. For many years, this was the habitual procedure in testing products, and it still is

widely used. A product may be submitted to a small group of departmental executives, including those from various departments, such as sales, purchasing, engineering, and research. In addition, top executives, such as the president or the general manager, are often included. After examination of a new or improved product, or actual consumption in the case of food products, a decision is made either to put the product on the market without further change or to make changes which executives suggest. While effective product changes have often resulted from testing by company executives, still this procedure is not an acceptable substitute for testing by potential consumers. A group of company executives constitutes a limited sample of consumers and a highly prejudiced one. Familiarity with the company's products breeds preference. It would be difficult, if not impossible, for company executives to judge competing products in an entirely unbiased manner. Furthermore, the sample would not be of sufficient size, nor would it have the attribute of proportionality. In fact, it would probably be composed of a few middle-aged or elderly men, whereas the potential market might be composed of women and children as well as men and of all age groups. A larger group of company employees, consisting of both sexes and all ages, would surely provide a better sample. If the company had employees in different parts of the country, so that geographical proportionality could also be achieved, a reasonably good sample might be secured. However, the simple fact that the participants were employees and familiar with the company's products and probably biased might lead to questionable results. While testing by company executives or employees is usually less costly than other procedures, it will probably give less accurate and dependable results.

Testing under Observation in Homes and Offices. This procedure has been very useful for testing consumer durables and office equipment. In one instance, it was used by a large producer of electrical equipment for a portable sewing machine. This machine had been under development for two or three years. Prior to its introduction on the market, the company actually took the machine to a large number of housewives and asked them to use it experimentally, to talk freely about its strong and weak points, and to suggest improvements. The company representatives who supervised the experiments were carefully trained and by skillful questions were able to secure valuable information which prompted certain changes in design. It might be argued, with some justification, that the housewife did not have sufficient time to examine the machine thoroughly and to use it for different purposes and with different types of material. However, it is doubtful whether she would have any greater opportunity to test each make and model offered if she were actually in the process of buying a machine. First impressions are important and often influence

purchase even of consumer durables. In this particular instance, the company thought that the tests by housewives were very successful.

An important objection to this procedure is one of cost. Each interview required an hour or more and probably cost two or three dollars. For this product, geographical dispersion of interviews was not considered necessary, since conditions of use do not vary greatly in different parts of the country. However, if the product being tested required widespread interviews, the cost could be prohibitive. While valuable information might be gained, even though there was not adequate proportionality in the sample, the company could not be sure that the results were accurate. At times the reactions of consumers seem so essentially reasonable that there is little doubt other consumers would respond similarly if the product were submitted to them.

Testing in Retail Outlets. At times products are placed in retail outlets, not for the purpose of immediate sale but for exposure to the public in order to secure consumer reactions to them. A company representative is placed in charge of the display to talk with the people who inspect the merchandise and to listen to their chance comments. This procedure usually requires the co-operation of independent retailers, but the need for such co-operation may be overcome if a company establishes a few strategically located retail outlets—or "laboratory stores," as they are frequently called—for testing both products and sales methods. Another variation of this procedure is to rent store space for a short period in order to conduct consumer tests. For instance:

A home appliance manufacturer developed a series of new models that he wanted to test among consumers. These new models were to be compared to similar types and models in competitive lines. Cities, towns and villages within their distribution areas were carefully selected for testing purposes. In each test area a vacant store was rented. Husbands and wives (this type of appliance is usually purchased by both man and wife) from statistically representative families were induced to visit the test store and state their type and model preferences.[9]

In this instance attention was paid to the adequacy of the sample, and, if the company representatives who talked with potential buyers in the stores were well trained and skillful in questioning, significant information should have been secured.

Testing by Company Visitors. For many years certain large companies in the United States, particularly the food companies, have submitted products for testing to company visitors. For example:

Swift & Company has long maintained in its organization a market-research staff, one of whose functions is to investigate and to keep the

[9] Robert F. Elrick, "Blueprints for Testing New Consumer Products," *Proceedings of the Special Wartime Conference of the American Marketing Association, Chicago, November 30—December 1, 1944.*

company's production and sales executives informed of changes in consumer preferences. Under the guidance of this staff, information has been obtained from nearly 100,000 consumers regarding the flavor, aroma, texture, appearance, or tenderness of a great variety of foods such as ham, bacon, lard, shortening, butter, cheese, sausage, meat specialties, and many others.[10]

The majority of these testers initially were company visitors who agreed to subject themselves to testing after a tour through the stockyards and packing plants. Later it was found that they did not constitute a good cross section of the general public, and club groups and others scattered over a wide area were used to check on the earlier findings. In tests by visitors at the home office, there is an opportunity to furnish adequate supervision and control—an advantage of particular importance in the testing of food products where taste perception differs markedly among individuals, and judgment on taste may be influenced by smell.[11] The problem of food testing is complicated, but important results have been secured.

In one instance, it was revealed that a comparatively new Swift & Company product was less pleasing to consumers than other competing brands. After discovering the reasons, changes were made in the color, texture, and flavor, which not only caused it to be preferred by consumers in subsequent tests but also reduced its production cost. Since that time the sales of the improved product have increased rapidly.[12]

Testing by Consumer Panels or Juries. First, it should be observed that company executives and employees, the clientele of retail outlets, and company visitors, when used for product testing as previously indicated, constitute juries or panels. However, these people are selected because of convenience rather than through a conscious attempt to make selections wisely. In contrast, we are concerned here with testing groups composed of individuals who are carefully selected as being representative of the potential market. A group may be chosen for one particular test, or it may be a continuing group. Many advertising agencies and manufacturers have groups which may be called upon at any time to participate in product tests.[13]

[10] Donald R. G. Cowan, "Product Testing and Its Value to Business," *Journal of Business of the University of Chicago*, Vol. XI, No. 4 (October, 1938), pp. 349–50.

[11] *Ibid.*

[12] *Ibid.*

[13] General Foods Corporation has a panel of approximately 10,000 active testers who can be called upon for testing purposes. Reliable results are usually achieved by using a group of from 500 to 2,000 individuals or families for any particular test. The larger number makes possible selection within the group. For instance, if a product ties in especially with children's diets, people with young children can be selected for testing work or, if desired, testers only from rural areas or who use particular types of cooking facilities may be selected (see Marie Sellers, "Pre-testing of Products by Consumer Juries," *Journal of Marketing*, Vol. VI, No. 4 [April, 1942]).

Consumer juries are used for many different purposes. Some are designed for testing advertising copy, radio programs, and other promotional efforts. There are opinion panels of the familiar type used for predicting results of political campaigns, and estimating the personal standing of people in public life and public attitude toward certain policies or administrative units of government. There is also the continuous purchase type of consumer panel which has created so much interest in recent years. But here we are concerned with consumer panels or juries only as a device for product testing.

The problem of selecting testers, obviated by the other procedures, is a difficult one to solve. Testers must be potential consumers of a new product or actual consumers of an old product which is undergoing change. Therefore, if the product to be tested is new in type, some determination will have to be made as to the characteristics of its potential buyers. However, most products are new only in that they vary in design or appearance from some brand previously used. Generally, it is not particularly difficult to determine what classes of consumers are likely to be customers. However, to contact individuals in the classes wanted and to be sure that they constitute a reasonable cross section of the potential market present difficulties. If testers are solicited in advertising, only the most interested individuals are likely to reply. Names may be secured from chambers of commerce or other civic bodies or from the rosters of women's clubs, churches, parent-teacher associations, or other such groups. However, people who belong to these organizations may not be truly representative of the entire group of potential purchasers of a product. Home economics departments of schools and colleges have often been helpful, both in furnishing names and in arranging for group testing.

People are often selected for panels by personal interviews or mail questionnaires. Lists of names may have been secured from the sources just mentioned, telephone directories, or credit records of retail outlets. Either through interviews or through mail questionnaires, it is possible to secure reasonably complete information as to products in use and other environmental factors; personal characteristics of family members, such as age and sex; experience, training, and employment of the principal family members; and an estimate of either individual or family purchasing power. Personal interviews provide more exact information but are more costly than questionnaire techniques. Frequently the desire for greater representativeness yields to cost considerations, and, as a result, the jury selected does not represent a true cross section of the potential market geographically, in purchasing power, or in other characteristics. Whether an additional expenditure for jury selection would yield a compensating advantage in a more representative jury is always a pertinent question.

Another question, one on which there is much difference of opin-

ion, arises in the selection of consumer juries. Perhaps a jury composed of individuals who come from the most interested, thoughtful, and experienced part of the potential market will provide more reliable information on the acceptability of products than will a fully representative jury which is difficult to secure. There is some indication that certain members of a community lead in the adoption of new and improved products and that others follow. This, of course, questions the validity of the concept of representativeness in the selection of a consumer jury. For instance, the General Foods Corporation panel was originally selected from members of its radio cooking-school mailing list, which, in turn, included women who had written in voluntarily and registered in the school to secure recipe bulletins. They were self-selected and therefore did not necessarily represent a cross section of the potential market. Nevertheless, these women were in all probability interested in cooking as an art and in new food products. Thus it might be expected that they would be leaders in such activities in their communities. Furthermore, they could be expected to co-operate more fully and to follow instructions more closely than could a more representative group. Probably the most warranted conclusion is that, in some instances, a truly representative panel would be needed, perhaps in a final test of a product just before it is placed on the market. In other instances, a panel comprised of people in the upper levels of interest, training, and ability might be preferred. It is interesting to note that both types of panel are frequently used to test the same product. The food companies, for instance, often use both their own panels and those of their advertising agencies, which are likely to be less biased and, perhaps, more representative.

There is much interest and difference of opinion in regard to whether a continuing panel can be justified. It is argued that the members of a continuing panel shortly assume a professional attitude and become too highly analytical in their judgments. A continuing group may therefore become less and less representative of the potential market as time goes on. Furthermore, its members may become enthusiastic supporters of a company's products and therefore unable to judge products in an entirely unbiased manner. Over the same time period, however, the panel group may become more and more interested and willing to follow instructions carefully and thus may provide more accurate information. Moreover, the cost involved in securing new juries for each product test would be substantial, if not prohibitive. The best results are probably achieved by careful initial selection of a relatively large number of consumers, thereby making possible the selection within the group for tests of particular products. Members of the larger group would then be used sufficiently infrequently so that they would not assume a professional status. When

tests by the continuing panel were relatively inconclusive, a group outside might be selected either to confirm or to deny the conclusions previously reached.

Another problem of panel administration is to secure the proper measure of control and supervision in the experimental use of products by testers. Some people in the field of product testing are very doubtful about the results from unsupervised tests in homes. Tests conducted under organized supervision are preferred, but then it is necessary to get the testers together as a group. For instance, a company representative may supervise testing of a product by all members of a women's club simultaneously or, perhaps, consecutively.[14] Such testing may be carried on in different parts of the country to attain some measure of representativeness in the sample. Much can be said for this procedure when the conditions necessary for the test are exacting; however, it is costly. More frequently, a product to be tested is sent, together with detailed instructions, to the panel members, and the test is conducted under normal environmental conditions without supervision. Whether the results are reasonably accurate depends upon the co-operativeness of the testers, and whether the instructions can be followed without difficulty. Still, there can never be complete assurance that the instructions are followed. If the test is not difficult, this method may produce reasonably reliable results, particularly if the testers are in the upper strata of experience and native intelligence. Getting information from a truly representative sample is less difficult under this procedure and is likely to be less costly than group testing under supervision.

Preliminary Market Testing

Preliminary market testing varies substantially in procedure from other forms of consumer testing. Instead of placing a product in the hands of selected consumers for observation and experimental use, the product is placed in retail outlets for actual sale. Sales volume then furnishes the clue to the market acceptance attained. Market testing may follow consumer testing for purposes of verification. In one in-

[14] In the consumer testing of durable goods, at times photographs, ordinary stereopticon slides, and stereograms (three-dimensional pictures) have been substituted before testing groups for the product itself. The expense incurred in testing is thereby reduced, and substantially so if tests are conducted in different sections of the country. While exposure of the product itself would provide a more adequate basis for an expression of consumer preference, still pictures may be an acceptable substitute. Pictures and illustrations have likewise been used very effectively in mail questionnaires. The Customer Research Staff of General Motors Corporation has used them for both pre-testing and post-testing. Many style features or mechanical contrivances on which respondents are asked to express their attitude have been on cars previously, but others are contemplated innovations on which public response is desired prior to a decision on their introduction.

stance, a soap company was convinced by the results of a consumer panel test that there would be acceptance of a more concentrated soap powder. A preliminary market test, however, indicated that a smaller package would not sell well, even though it contained an improved product.

Three principle procedures are used in preliminary market tests: sales in test markets of a single product; sales of two or more designs of a given product to determine acceptance for each and the probable distribution of sales among them, if all were placed on the market; and the use of test lines.

Market Testing of a Single Product. When a manufacturer has either a new or a redesigned product ready for the market, he may, as a final precautionary step, introduce it in test markets before giving it widespread distribution. He may have pre-tested the product carefully and be reasonably sure that it will prove acceptable to consumers. However, in view of the capital commitment needed for physical distribution and promotional efforts, he may feel that no opportunity for testing should be overlooked.

The first step is to choose test markets which, as far as possible, will be representative of the entire potential market for the product concerned. For many mass market consumers' goods, the test markets should have about average purchasing power, well-diversified industries, the proper balance of demand between industry and agriculture, and a reasonably average admixture of racial groups. It is preferable to select cities which are somewhat isolated. They should not be too greatly affected by large shopping centers nearby. Test cities are more workable if they are compact and have good stores and cooperative merchants. While the sample should be truly representative, cost considerations frequently dictate a less adequate sample and thus lessen assurance of accurate results.

In order to use test markets effectively, a product must be fully developed as to size, shape, and packaging, have a brand name, and be accompanied by the usual promotional materials, such as window displays and other dealer helps. In other words, it must be sold under normal competitive conditions if confidence is to be placed in sales data as evidence of consumer acceptance. An illustration is furnished by the market-testing procedures of the New England Confectionery Company.[15] Testing is done in retail stores under the direction of company detail men. An attempt is made to expose a product to a representative sample of consumers. Stores of all types that retail candy are used—for instance, those in suburban districts, school neighborhoods, shopping centers, and residential areas. Dealers who participate are given free merchandise. Jobbers are notified so that

[15] M. S. Sullivan, "A Lulu or a Dud? Necco Pre-tests Every New Item to Find the Answer," *Sales Management*, Vol. XLIII, No. 5 (September 1, 1938), p. 25.

they will not think that the company is modifying its policy of selling only through jobbing outlets. Tests are conducted for from four to six weeks. During the test period, detail men often act as salesmen in the stores during those hours in which candy sales are concentrated. Retailers are asked to determine whether each sale is a first sale or a repeat sale, and records are kept on each type. If, at the end of the test, sales data indicate that repeat purchases have been substantial, that the product has sold well in relation to established brands, and that there is no objection to its appearance or packaging, the company feels that it can go ahead with wider distribution with reasonable assurance of success. Tests such as these in retail outlets may be followed by testing of sales through jobbers. Repeat purchases by retailers from jobbers then furnish the clue as to whether the product has received a reasonable measure of consumer acceptance over wider areas. After market testing of this character, preliminary estimates of sales in the national market usually check within 5 per cent of the actual totals realized.

If the response of consumers in a market test is unfavorable or inconclusive, if doubts still linger as to whether a product will ultimately sell in sufficient quantities to be profitable, then backtracking is in order to determine the cause of its failure. Clues may have been secured from dealers or from chance comments of purchasers in the test stores. The fault may lie in the product itself or in its packaging. It may have been overpriced. In any event the market, through testing procedures, has given its answer, and the manufacturer must again engage in designing and pre-testing in an attempt to develop a product which will have more appeal for consumers.

Market Testing of Styles or Designs. Manufacturers have frequently conducted experiments in retail outlets to secure consumer reaction to different styles or designs of a product. Suppose, for instance, that a manufacturer of compacts or electric clocks wished to determine which of a number of styles, colors, or designs would prove most acceptable to consumers, or what the likely distribution of sales among them would be if all were placed on the market. Such information would prove most useful as a guide to selection by the manufacturer of a few among many models to offer, and as a guide to production for inventory prior to a heavy seasonal demand. Stock would need to be accumulated to meet anticipated demand, and too few or too many of different models might result in lost sales, markdowns, and thereby reduced profits.

The procedure is actually to place the various models on sale in retail outlets. As it constitutes an experiment, control and supervision are necessary; for instance, each model must be given an equal opportunity for purchase. If some models are more adequately displayed than others; if retail sales people, because of their own preference,

either consciously or unconsciously influence consumers to buy one model rather than another; if insufficient stocks are present of some models at times, so that choice is restricted; if price is not uniform, or if the differences in price do not accurately represent differences in value; or if other extraneous factors which would influence purchases are not controlled, the relative purchases may not indicate consumer acceptance. The problem is to hold constant all factors other than the differences in the models. This is no simple task. Nevertheless, to the extent that it can be done successfully, purchases will be a true reflection of consumers' attitude toward the products being tested.[16]

If a test is conducted in but one store, the results will reflect only the attitude of the type of consumers who patronize that store. This seems obvious, but it frequently is not recognized. Patrons of a particular store may or may not constitute a true cross section of the market for a product. In all probability, similar testing will have to be done in other types of retail outlets and, perhaps, in different sections of the country as well. The problem of reliability and proportionality in the sample of consumers subjected to the test must always be given due consideration, but significant information on consumer preferences can often be secured from relatively few sales.

The Use of Test Lines. Manufacturers of goods which have a marked style element, or in which technical innovations are frequent, do not wish to jeopardize their markets through departing too greatly from accepted forms or patterns. If there is doubt as to whether a substantial change will be acceptable to consumers, the change is likely to be made initially in an unimportant part of a manufacturer's line for testing purposes. The use of the product idea in this manner might be characterized as a "trial balloon." The manufacturer may feel that the reaction of consumers cannot be known until at least a certain portion of them has actually tried the product. If the innovation is significant, the reactions of people who try the product will soon become known to other potential consumers through word-of-mouth advertising.

This procedure has been used customarily in the past by the automobile companies. Innovations such as air-flow bodies, the hydramatic drive, and free-wheeling have been placed on secondary lines, such as the Oldsmobile and the De Soto, rather than on the Buick and

[16] The annual automobile shows before the war provided a testing ground for new styles and designs. The distribution of the orders taken at the shows as between various models and other evidences of the interest which newer models aroused in the public mind were watched closely by company executives and furnished a rough guide for later production. In one particular instance, an automobile company seriously considered the withdrawal of a whole line of cars from the market after the evidence accumulated at the automobile shows indicated that the changes made in the line had been too drastic and, therefore, would not secure public acceptance. Minor changes in models have frequently been made in the past on the basis of evidence secured as to degree of public acceptance for them at the automobile shows.

the Chrysler. A like practice has been followed for food products and, less frequently, for drugs and cosmetics. A variation in an accepted product may first appear in less known brands or, perhaps, even in unbranded merchandise. Consumers are then induced to use the product through price appeal, special retail selling efforts, point of sale advertising, or other such devices. Sales are then carefully noted, and, if the innovation attains a reasonable measure of consumer acceptance, it may later be incorporated in the principal brand and promoted heavily.

Post-testing

If any product has been on the market for some years without change in its design or packaging, the likelihood is that competing products have outdistanced it in the race for consumer preference. Except under exceptional circumstances, it cannot be otherwise. Changes in the number and quality of raw materials available, the techniques of manufacture, and the desires of the market form a constantly shifting pattern which must be reflected in product changes if a manufacturer's relative position in the market is even to remain static, to say nothing of improving. Business experience has amply proved that a manufacturer can overstay his market for certain qualities or designs of product. The Ford Motor Company's experience in the late twenties is a case in point. The market for a passenger car like the Ford, which stressed utilitarian characteristics, had dwindled appreciably, and other makes which stressed style characteristics had made substantial inroads into Ford's share of the market. If a manufacturer fails to improve his product, he can lose quickly even a preeminent position in the market, and his resulting financial losses may be very substantial indeed. Thus old products need periodic retesting to enable the manufacturer to anticipate changes in relative demand and, if these changes are likely to be unfavorable, to counteract them *in advance* by attention to product development.

The market is continually testing products, and some specific information on consumer acceptance is thus furnished by sales data, particularly by the trend in sales. More accurate information as to a company's position in the market is furnished by the trend shown in the proportion of total sales of a given product or class of products. This presumes, of course, that data are readily available on total sales, or that reasonable estimates can be made of the sales of competitors. Relative position in the market at any one time is a reflection of numerous factors, in addition to the relative merit of competing products, among them inertia to a change in buying habits, promotional efforts, and accessibility of the merchandise to purchasers. But neither inertia nor promotional efforts are a full or continuing protection

against inferiority of product. As evidence of market position at any one time does not indicate why one product is preferred over another, this information, supplementary to sales data, must be secured through testing procedures, either of an experimental or survey character.

Experimental procedures can be used also for testing old products. Post-testing may also be accomplished by the use of consumer interviews or mail questionnaires. In order to use these procedures, it is necessary for the product to have been in habitual use by the consumer or for him to have been influenced by word-of-mouth advertising, promotional activity, or observance of the product in homes or retail outlets. Whether or not a consumer has actually used certain products, such as consumer durable goods, he likely will have some ideas as to the quality of competing brands. These ideas are of importance as they may constitute the motivation for later purchase. First, we shall consider briefly experimental procedures in the post-testing of products; and, later, the use of interviews and mail questionnaires as alternative procedures.

Experimental Procedures. Experimental procedures have frequently been used to determine the merits of an old product in relation to newer products. A simple blind test to determine preference may be most revealing. An illustration is furnished by a test between an old product which had been on the market for many years and newer products of like type.[17] The older product had continued to hold a dominant position in the market because of long-sustained promotional effort and accumulated consumer good will. However, recognized improvements in competing brands raised the important question as to whether the old brand retained its lead because of equal or superior quality, or only because of the factors previously mentioned. When these brands were subjected to a blind test through a removal of labels and other distinguishing marks, only one-quarter of the votes were cast for the old product.[18] The outcome of this test strongly indicated that the old product was in a vulnerable position. Competing manufacturers, through promotional efforts such as the distribution of samples or free deals, might be able to get consumers to try their brands. Repeat purchases induced thereby might redivide existing demand in the competitors' favor and thus prejudice the posi-

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[17] This illustration is taken in part from Donald R. G. Cowan, "Product Testing and Its Value to Business," *Journal of Business of the University of Chicago,* Vol. XI, No. 4 (October, 1938).

[18] There is always some possibility, in a test of this character, that the respondent will recognize a certain brand because of habitual use even though distinguishing marks have been removed and vote for it as a result of such recognition. In this particular instance, the old product was so widely used that the results of the test may have been prejudiced in its favor. This factor further illustrates the difficulty of so arranging and supervising tests that biased results will not appear.

tion of the dominant brand in the market. Consumer acceptance, as indicated by purchases of the old brand, could not be maintained indefinitely and at a reasonable promotional cost if newer competing brands were, in fact, of superior quality. The manufacturer in this particular instance proceeded at once to improve his product. Buyers for some time subsequently were offered both the old and an improved new product under the same label. Advertising and other promotional efforts were shifted to the improved product in order to convert consumers to its use.

The virtues of the experimental approach to product testing cannot well be overstated. Experimentation under controlled conditions always drives out more empirical research methods where conditions are such that it can be used. Other methods, soon to be discussed, are much more likely to result in biased answers from a less controlled sample of respondents. However, it would be much more difficult, if not impracticable, to conduct an experiment of the type just outlined on automobiles or other durable goods. The distinguishing characteristics of many consumer durables are well known by consumers, and concealment, for purposes of a blind test, would not be possible. Wherever the experimental method can be used, however, it will be more likely to give accurate information on consumer attitude toward competing products than will any other procedure.

Interviews with Dealers or Consumers. Something has been said previously about the use of trained interviewers to secure information on consumers' attitude toward products. This practice is costly, particularly if a manufacturer attempts to use a truly representative sample. Nevertheless, if interviewers are well trained and are thus able to get unbiased answers from consumers, the quality of the information secured is better than that from any other survey method. The key to this procedure is in the selection and training of interviewers. All too frequently in the past, manufacturers and research agencies have sent interviewers into the field without the proper personal requisites, or the necessary training, or instruction. As a result, the information secured was not truly representative of the real attitude toward products on the part of consumers or dealers.

It is recognized, for instance, that first answers to an interviewer's questions are often incorrect and are substantially modified after further deliberation by the respondent. Both a carefully planned approach and conversational adroitness are needed if the respondent's real attitude toward competing products is to be discovered. The interviewer must be most careful not to create bias in the response through suggestions or improperly worded questions. Many interviews are conducted too hurriedly. Sufficient time is not taken to get at the truth. The interviewer must also recognize that some respondents lack knowledge of the products under investigation and that their

replies are of no significance. The quality of personal interviews for product testing is much more important than the quantity, despite the need of representativeness and reliability in the sample. The use of a questionnaire for guidance of the interviewer, even though it is not filled out until after the interview is over, often proves most helpful. While improvement in the selection, training, and instruction of interviewers has undoubtedly been made, still there is no single feature of testing by survey methods which needs more attention on the part of research workers.

The question arises as to whether interviews with dealers are an effective substitute for interviews with consumers. The answer to this question is of importance, for, if a dealer knows the attitude of his customers toward products and can thus furnish a consensus, the same information can be secured through the dealer at less cost than directly from consumers. While dealers are in frequent contact with consumers and accumulate helpful information, it is very doubtful whether dealers can furnish an accurate statement of the attitude of their customers toward competing products. Most sales are made by clerks and, particularly for food purchases, self-service in supermarkets has assumed importance. There is also little opportunity for the dealer or his employees to secure information on the reasons for consumers' preference when orders are taken over the phone or by mail. Dealers do know consumer preferences as indicated by relative sales volume, but whether they know in the majority of instances just why certain brands are purchased is open to question. Wholesalers are further removed from direct contact with consumers and are thus of relatively little value for product testing.

Use of Mail Questionnaires. The mail questionnaire survey has probably been used more frequently than any other procedure for eliciting information on consumers' reactions to products. Surveys of this type usually seek information on factors which influence consumers in purchasing, purchasing habits, location and type of retail outlet from which purchases are made, and various other matters of interest to the sales executive. Investigators have usually attempted to get too much information through each survey and thus have prejudiced the attainment of more limited objectives, such as the one of consumers' attitudes toward products. The *why* question in regard to product attributes as an influence to action in purchasing—our main concern in this discussion—might well be the only objective of a survey, for its importance is sufficiently great to merit individual attention.

While the investigator may be interested only in the consumers' attitude toward a single brand, usually he is interested in attitude toward all directly competing brands. In other words, he wishes to know why the consumer purchases one brand rather than another,

and, if the reason lies in the nature of the product itself, what product characteristics were chiefly responsible. Thus the investigator by appropriate questions must first determine whether product characteristics had anything to do with purchase. The consumer might believe that there was no substantial dissimiliarity between different brands of certain products. In that event choice might be dictated solely by convenience. While the complete motivational pattern which results in purchase of one brand rather than another is difficult to determine by the use of the mail questionnaire, still worth-while information can be secured on product likes and dislikes and their relative importance as influences on the purchaser.

There are numerous advantages in the use of mail questionnaires. The bias often engendered in personal interviews is avoided. Response can be secured from a large number of respondents widely scattered throughout the national market and at a reasonable cost.[19] Regardless of the location of the respondent, the cost of reaching him does not vary. Names can be secured from city directories, telephone directories, rosters of clubs and associations of diverse character, and many other sources. While there is less opportunity to select particular respondents, selection among broad groups is relatively easy. For instance, distribution can be controlled as between people engaged in industry and agriculture; urban, rural, and small-town inhabitants; people in areas with different climatic conditions; and other such broad classes.

The nature of the sample can likewise be controlled in some measure by the use of questions which elicit information on age, sex, occupation, and economic status of the respondent, and ownership of durable goods. If enough responses are secured, the sample can be constructed after they are received. Questionnaires would be discarded which were filled out by people who could not reasonably be considered as potential buyers of the product under investigation, or whose background and experience did not provide the necessary information to answer the questions intelligently. After discarding these questionnaires, a sufficient number might still remain to attain reliability in the sample both for the total universe and for the important subdivisions. While it is recognized that the respondent may give incorrect information, and that it is usually impracticable, if not impossible, to check up on each individual, nevertheless, some improvement in the sample may be secured by this procedure. Admittedly, the sample would be improved if only the right type of respondent

[19] There is considerable expense involved in either the interview or the mail questionnaire procedure. There has been some doubt as to which is the least costly, all factors considered. In view of the recent substantial increase in the cost of interviews, however, the cost advantage probably lies with mail questionnaires. The cost must, of course, be related to both the quantity and the quality of the information secured.

were selected initially, but this is very difficult to do, other than through the personal interview method. Even then, errors are made in selection; but the interviewer can, through personal observation and questions, correct the sample. A similar opportunity is not afforded in the mail questionnaire procedure.

The latter procedure has definite limitations, some of which have been mentioned. There always is doubt about the representativeness of the sample. Less information can be secured effectively than through personal interviews. Skillful interviewers can obtain information which would not be reported accurately in mail questionnaires. For instance, a comprehensive report on the motivation behind the purchase of an expensive unit of home equipment could not be secured through a mail questionnaire. The effectiveness of the method depends, in large part, on the clarity with which the questions are stated, the order in which they are asked, and their essential reasonableness in the light of the probable training and experience of the respondent. Every effort must be taken in the preparation of questionnaires to avoid possible misinterpretation, for there is no opportunity for immediately placing the respondent back on the right track as in the personal interview method. There is much opportunity in questionnaire construction for the exercise of skill, resourcefulness, and imagination. It is not a task for amateurs and, if undertaken by them, will probably result in misinterpretation of questions by the respondent, and a lower proportion of responses.

Many errors are avoided in the construction of mail questionnaires by preliminary testing before they are distributed to the entire sample selected. Such testing of questionnaires has become almost habitual on the part of many marketing-research agencies. Questionnaires are sent, or even presented by interviewers, to a limited number of respondents to determine whether their training, experience and native intelligence are such as to provide the basis for answers; whether they have difficulties in interpretation; and whether the questions are listed in the best order for ready response. If the test reveals weaknesses, the questionnaire is revised and, perhaps, even tested again in order to make sure that it will be effective for securing desired information.

FINAL COMMENTS

The foregoing discussion of product and market testing may leave the impression that it is a universally accepted tool of management—a part of a definitely formulated policy regarding product development. This impression is justified, at least in part, for all companies do some technical testing as a necessary condition of manufacture to attain uniformity in output. They may go a step further by hiring an independent commercial laboratory to make periodic checks of their

merchandise to see whether or not uniformity is being attained. Analysis testing of the product of competitors and performance testing under simulated conditions of use of both their own products and those of their competitors may also be a periodic task dictated by company policy. Moreover, all companies are keenly aware of trends in sales volume, both in the absolute and in relation to competitors' sales. If trends are unfavorable, steps are taken to find out the reasons therefor. This information may be revealed by technical testing or by consumer testing of one type or another. Thus it is evident that all manufacturing companies do some product and market testing.

Even distributive agencies may engage in such activities to be sure that the products which they sell have merit and will be acceptable to their customers. There is, nevertheless, a substantial variation among producers and distributors in the *extent* of their testing activities. Some concerns, particularly in the food and the textile industries, go through the whole gamut of testing—pre-testing, preliminary market testing, retesting of units of product which have been returned by purchasers for adjustment, and the periodic post-testing. Other concerns, in contrast, may do a minimum of testing work.

The reasons for variation in the use of testing procedures may be found, in part, in the nature of the product. While these procedures can be used effectively for almost any type of merchandise, still they have been used more frequently by manufacturers of branded food products, certain drug items, cosmetics, textiles, and wearing apparel; and for consumer durables, such as automobiles, sewing machines, furniture, and refrigerators. Some of these products have a style element, and all lend themselves to innovations which may secure for them a greater measure of consumer acceptance. Even when the style element is not present or is relatively unimportant and innovations in a product offer little opportunity for competitive advantage, the need for uniformity may provide the motivation for testing. However, for a standardized product with known and limited utility, one in which complete uniformity can be achieved in manufacture, there is comparatively little need for product and market testing.

Other factors which influence the extent to which product and market testing are used by management are the degree of risk involved in the introduction of a new or an improved product, the cost of testing, and the timing of product introduction. Executives may have little doubt about the eventual success of a product, even though it has not been pre-tested by consumers or first sold in test markets. Or, in contrast, pre-testing may indicate the likelihood of a substantial degree of consumer acceptance for a product, and then preliminary market testing may be considered unnecessary. Sales data may strongly suggest that competing concerns have not been successful in the improvement of their products and, therefore, that post-

testing is not immediately essential. Small concerns may have insufficient financial resources to engage in testing activities and therefore are forced to incur additional risk.

Testing is a time-consuming procedure which may have the effect of withholding products from the market for several weeks or even months. Such a delay may jeopardize a company's competitive position. Considerable importance is attached to priority in the introduction of new products on the market. Company executives may feel that the losses which may be incurred by placing on the market a product which is not fully tested will be more than compensated for by introduction ahead of competitors. In one instance, the manufacturer of a new consumer durable good placed his product on the market under a warranty of full satisfaction before the product was technically perfected. The resultant cost of replacing or repairing defective units was substantial. The manufacturer probably incurred some consumer ill will, but this may have been dissipated by performance under the warranty. Whether a manufacturer actually secures a competitive advantage by a hasty procedure of this character is highly conjectural. He may secure a temporary advantage by being first on the market, but, as an offsetting factor, consumers may continue to doubt the quality of his products for some time afterward. In the long run, it is probably better to develop a sound product before introduction on the market, and this usually involves product and market testing.

REVIEW AND DISCUSSION QUESTIONS

1. What specific types of testing are comprehended within the general term "product and market testing"; i.e., what is the structural pattern of testing activity? Are the various types of testing substitutional for each other or supplementary to each other?
2. What reasons may be advanced for adequate attention to product and market testing?
3. What are the procedural steps in the testing of products under simulated conditions of use? Consider the problems involved in such testing of different products, among them motor oils, textiles, springs and mattresses, electric stoves and refrigerators, and automobiles.
4. State succinctly the conditions under which a manufacturer should have confidence that performance, as indicated by testing under simulated conditions of use, would closely approximate performance under actual conditions of use.
5. Why do manufacturers often utilize the services of commercial laboratories for product testing even though they still maintain testing laboratories of their own?
6. "The problem in determining consumers' preferences in relation to product design by the interview method is not so much one of con-

trolling the respondent as one of controlling the interviewer." Comment.

7. If you were asked to appraise a marketing survey, the purpose of which was to discover and to evaluate the significance of consumers' attitudes toward a particular manufacturer's product and toward products which competed with it, what things would you check before you accepted the conclusions presented at face value?
8. Under what conditions is experimentation effective as a means of acquiring knowledge? Can these conditions be approximated in product testing?
9. What conditions may withhold product and market testing even by those concerns which customarily use these procedures prior to full-scale introduction of new products on the market?
10. A manufacturer of electric appliances, as a part of a testing program, displayed finished plaster and wood models of electric irons. Three of the models represented proposed new designs then being considered by the company, and three were exact copies of appliances then on the market. People were asked which one they liked best. The largest proportion of the votes went to one design which had been the best seller on the market for some time. Not 1 per cent of the people who voted for this model recognized it as an exact copy of a well-known appliance. This favorable vote was construed only as a reflection of the fact that people had seen this design on display many times, in many different places. Later the same models were shown to some professional designers and others who worked on design problems. This group voted in large proportion for one of the company's proposed models.

    What conclusions would you reach from this testing procedure? What other testing procedures would you suggest?
11. On December 2, 1950, it was reported in *Business Week* (p. 86) that National Dairy Products, Inc., had launched a major test campaign in Wilmington, Delaware, for a fluid milk concentrate. This concentrate is reconstituted into fluid milk by adding two parts of water to one part of concentrate and mixing thoroughly. The product was sold in fiber cartons one third the size of the ordinary milk container.

    What types of testing probably preceded this market test? Outline a procedure for market testing of this product.
12. One of the large packing companies decided to develop a new and improved ice cream and place it on the market. Consequently a vanilla ice cream of particularly high-quality ingredients was developed in the company's laboratories. At the eleventh hour the ice cream was submitted to consumer tests as a precautionary measure, although there was no real doubt of its excellence. Five hundred office employees were served free portions of the new ice cream in the company's cafeteria at lunch. Each dish contained a duplicate dipper-full of one of the leading and well-established competitive brands. The employees were asked to report which ice cream they liked best, and why. They preferred the competitive brand. Moreover, they did not

like the company's ice cream. To them it was not sufficiently sweet, rich, or smooth, and it was considered too watery. Still it had a particularly high butter-fat content and was made of pure, expensive ingredients. Further research showed that sweetness is a function of coldness of ice cream, that consumers believe that a yellow ice cream is rich, that flavor is more a function of the freezing process than of the ingredients used, and that high butter-fat content is no guarantee of smoothness and palatability. Retests confirmed the initial findings, and the ice cream went back to the laboratories for "redesigning."

On what bases would you question the procedure used in the initial test?

What lessons in relation to product testing may be learned from this experience?

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Chapter IV

BRANDS AND TRADE-MARKS

AFTER the physical characteristics of the product itself have been determined, the next step in planning for many products is concerned with branding, packaging, and labeling. A product is not complete until it is placed in the form in which it will be offered to consumers. For most products, branding, packaging, and labeling create certain important utilities. A brand or other identification gives assurance as to quality and information as to the source of supply. A package also helps to identify a product with its source and, in addition, protects the product so it will reach the consumer in good condition. Labels help in identification, and they may furnish information on how products should be used and cared for.

This triumvirate of branding, packaging, and labeling has been accorded considerable attention in recent years because of fundamental changes in the American economy. The shift in population from rural to urban areas, the higher standard of living which permits a greater variety of purchases and allows purchase of products in containers, even though the price is thereby increased, better transportation and communication all have had their effect on preparation of the product for the market.

In the last two decades there has been much agitation about the need for consumer protection and consumer education. As a result, questions on the significance of brands and the information on labels have been much discussed. The so-called "consumer movement" has had a pronounced effect on manufacturers' policy in regard to branding, packaging, and labeling. Finally, and of greatest importance, these three are an integral part of the manufacturer's attempt to control his market through to the final consumer, i.e., to become independent, as far as possible, of the distributors of his merchandise. He may still use wholesalers, retailers, and other intermediaries, but he is not at their mercy if he is producing a branded, packaged article for which consumer demand has been created through advertising and other promotional efforts. Increased control of the market by manufacturers has been the most significant tendency in the field of marketing in the twentieth century. Perhaps this tendency is now being reversed through the private-brand activities of the large chain-store

companies, department stores, and mail-order concerns. Still, in the struggle for market control, it is evident that branding, packaging, and labeling play a major role for both the manufacturer and the distributor, as they are means by which control is achieved. This chapter will be concerned with problems and policies in regard to brands and trade-marks, and immediately succeeding chapters will deal with packaging and labeling.

Brands versus Trade-Marks and Other Marks

Prior to a discussion of more substantive questions, it is necessary briefly to consider matters of terminology. It is particularly necessary in view of the passage of the Lanham Act.[1] There are many terms used interchangeably in this field, among them "brand," "brand name," "trade-mark," "trade-name," and even "company name." The terms "brand" and "trade-mark" are often used in the same paragraph without any apparent distinction as to meaning. Perhaps in common parlance it is not necessary to distinguish between them, but the student of marketing should do so. The term "brand" is the all-inclusive term, whereas the other terms have more particularized meanings. A brand may be defined as any letter, word, name, symbol, or device or any combination thereof which is adopted and used by a manufacturer or merchant to identify his goods and services and to distinguish them from those manufactured, sold, or, in the case of services, performed by others.[2] When capable of being spoken, these letters, etc., constitute a "brand name," even though the combination of letters previously had no significance in language. Consider, for instance, the brands Spam, GE, Keds, and Duz. A brand name may be a company name. "Swifts" is the brand name for certain meat products. "Crisco," in contrast, is the brand name for a particular product produced by the Procter & Gamble Company.

"Brand name" and "trade-name" are usually considered as synonymous, perhaps unfortunately, for the term "trade-name" is often used in a broader sense as referring to a product type rather than to a specific item of that type manufactured by a single concern. The term "brand" is a business term; the term "trade-mark" is its legal counterpart. The Lanham Act seldom, if ever, mentions brands, al-

[1] Public Law 489: AN ACT To Provide for the Registration and Protection of Trade-Marks Used in Commerce, To Carry Out the Provisions of Certain International Conventions, and for Other Purposes (Lanham Act; H.R. 1654), *U.S. Statutes 1946* (79th Cong., 2d sess.) (Washington: Superintendent of Documents, 1947), chap. 540. This Act was approved on July 5, 1946, and went into force on July 5, 1947.

[2] For definitions of brands and trade-marks and other terms pertaining to them see "Report of Definitions Committee," *Journal of Marketing*, Vol. XIII, No. 2 (October, 1948), pp. 202–17; also the Lanham Act, Public Law 489, Title 10, "Constructions and Definitions."

though it obviously is concerned with them. This indicates that the term "trade-mark" is essentially a legal term but that it has the same general connotation as the term "brand" when applied to goods. A distinction can be made between a brand which will be given legal protection either because of registration or priority in use and one which is not capable of exclusive appropriation. This is a useful distinction but not one which fully resolves the question as to the distinction between brands and trade-marks. The Lanham Act in Title I, Section 2, speaks of trade-marks which shall be refused registration. Therefore, according to the Act, the term "trade-mark" is not confined to brands which can be registered but likewise includes those not subject to registration. While there may be other, more valid, bases for distinction between the two terms, the conclusion is apparently justified that they have the same essential significance, but that one is a business term whereas the other is its legal counterpart.[3]

The term "brand" covers other marks in addition to trade-marks. The Lanham Act distinguishes three other marks: the service mark, the certification mark, and the collective mark. The Act provides that marks used to identify services, although not affixable to a product, will, nevertheless, be subject to registration and protection by law. The Act defines a "service mark" as "a mark used in the sale or advertising of services to identify the services of one person and distinguish them from the services of others. . . ."[4] The Act defines a "certification mark" as "a mark used upon or in connection with the products or services of one or more persons *other than the owner of the mark* to certify regional or other origin, material, mode of manufacture, quality, accuracy or other characteristics of such goods or services or that the work or labor on the goods or services was performed by members of a union or other organization."[5] This mark includes the seals of approval furnished by publications, professional associations, and research laboratories. In many respects, the certification mark has the important characteristics of the service mark, for the only thing which the owners of the certification mark usually furnish *is* a service. For instance, the service performed by concerns which offer seals of approval includes the establishment of standards and the testing work necessary to determine whether products or services offered by other concerns meet these standards or the standards established by government agencies. The Act also recognizes a "collective mark" for use by co-operatives, other associations, or collective groups. As

[3] In speaking of a brand, businessmen may use the term as synonymous with a company's product. For instance, the statement "We have the best brand on the market" might be made. The statement "We have the best trade-mark on the market" would not be made with the same promotional objective in mind. The term "brand," as used in the first instance, refers to the product itself while, in the second instance, the term "trade-mark" refers to the mark and that only.

[4] Public Law 489, p. 19.

[5] *Ibid.* (italics added), p. 19.

in the case of a trade-mark, each of these other marks is likewise the legal counterpart of a brand which has been established and used for business purposes.

Types of Brands

There are four significant bases for distinction among types of brands. They are ownership, extent of the geographical area in which a brand is sold, the importance of the brand to the firm which uses it, and the number of products which it covers. Brands may be owned by manufacturers or by any wholesale or retail distributor. They may be national brands or they may be regional, sectional, or city-wide brands. Manufacturers speak of their "primary" brands and of their "secondary or subsidiary" brands. The primary brands are those which are extensively advertised and/or in which a greater proportion of sales are made. However, many companies produce more than one quality of the same product either to utilize available materials or as a matter of merchandising policy. Brands are then used to achieve quality differentiation. Under such a policy, the term "primary brand" refers to the highest-quality brand and "secondary" or "subsidiary" brands to second, third, or fourth qualities. Finally, the distinction is made between individual brands and family brands. The former covers but one product, whereas the latter covers a group of products with like characteristics or which appeal to a particular sector of the market.

It has become habitual to distinguish between national and private brands. The word "national" actually refers to manufacturers and "private" to distributors. The terms "national" and "private" are not particularly satisfactory as thus used, since they proceed from a mixed base. The term "national" applies to the area presumably covered in sales, whereas the term "private" applies to ownership. The so-called "private" brands are often sold throughout the national market, although they are owned by distributors rather than by manufacturers. In contrast, the so-called "national brands," are often sold only in certain sections of the country. Although any terminology as firmly established as "national" and "private" for brands is likely to persist, greater exactitude in nomenclature would be achieved by stressing the ownership and geographical bases for distinguishing between types of brands. Reference would then be made to manufacturers' brands in contradistinction to those of wholesalers, retailers, and chains, and to national brands as over against regional or sectional brands.

Objectives in Branding

Control over the Market. During the twentieth century the branding of goods has come to occupy a key position as the first step

toward market control. The manufacturer desires a large and steady demand for his products and, if possible, a continuously expanding volume of business to enhance his prestige, reduce unit costs and increase earnings. Nothing is of much greater importance to him than the assurance of a steady demand, for manufacturing facilities must be used continuously to attain reasonable costs per unit of output. A steady demand also facilitates planning in reference to purchase of materials, employment of labor, and administration of finance. What the manufacturer needed was some means of controlling the market. The plan evolved was to distinguish his products from those of other manufacturers through branding, which made practicable various types of promotional activity directed at the consumer.

Barring monopoly, advertising or other promotional activities are largely denied the manufacturer who has not achieved product identification, for their results may accrue to all producers of a product. If, through branding and promotion, consumers can be influenced to purchase a product and, through its use, to develop a preference for it, repeat purchases may provide the assurance of steady demand desired. The brand individualizes a manufacturer's product, indicates the source of supply to the consumer, and provides a connection between the two parties, despite the fact that the product may continue to go through the wholesaler and the retailer. In summary, brands furnish identification which makes practicable advertising and other demand-creation efforts. These, in turn, are the means for attaining some measure of market control through the influence which they exert on consumer buying habits. Through market control, manufacturers have often secured an assured demand for their products with all its attendant advantages. The whole procedure has usually resulted in expanding sales for those who use it effectively. It is not an exaggeration to say that branding has been one of the most important prerequisites to the growth of large-scale industries, particularly in consumers' goods.

Branding or other identification is a necessary condition for the administration of any policy whereby the manufacturer takes responsibility for his products subsequent to their sale. The fact of a warranty implies that there must be contact between the manufacturer and the consumer if the product fails to give the expected utility for reasons covered in the warranty contract. A manufacturer's responsibility for servicing his products may likewise be subject to a contractual relationship, or it may simply be understood, but it is based upon product identification. Purchases of technical products would not be made in as large volume without identification as to their source, for otherwise there would be no assurance of redress if a product failed to perform satisfactorily. Reliance might be placed upon the immediate seller, for instance, the retailer of consumers'

durables, but the potential purchaser might have considerable doubt of the retailers' willingness or ability to take the necessary responsibility for adjustment by servicing, replacement, or refunding of purchase price. Identification of merchandise plus warranties and arrangements for service constitute the consumers' protection in purchasing, whether it be of machinery and equipment or consumers' goods. The offer of warranties and service for promotional purposes is, in fact, another device for securing and maintaining control over the market.

Greater Independence in Price Determination. The manufacturer, through branding, secures a quasi-independent status in pricing, even though his products are not particularly distinctive or unusual. He has, nevertheless, through branding, distinguished his product from those of other manufacturers. The differences between his product and competing products may be significant, or more simulated than real; but the fact of branding establishes a difference in the minds of consumers, which may be considerably enhanced by promotional activities. If there are no distinguishing marks on merchandise of essentially like character, the market itself determines the price. There is little, if any, possibility of sales by one manufacturer at prices higher than those of his competitors. Differences in product, unless they are substantial and readily apparent, do not affect price until they are brought to the attention of buyers. However, a knowledge of differences may result in a preference through which a price differential is established. At least, with product individualized through branding, the manufacturer sets an initial price—one which admittedly is experimental, and thus subject to revision upward or downward, depending upon the reaction of the market. The price will contain some element of monopolistic advantage, for branding has, in part, shifted the manufacturer from price to nonprice competition. If branding and advertising have been effective in creating preference, consumers may purchase a favored brand despite a material difference in price. The amount of the differential may, in whole or in part, be offset by the additional cost of promotion, but a higher profit can reasonably be expected.

In general, the independence in price determination afforded by branding and sales promotion has resulted in price differentials based upon real differences in quality and service. However, there is good evidence that prices charged for competing brands, particularly for canned goods, are not always in direct alignment with quality differentials.[6] This suggests that certain manufacturers or distributors have

[6] Temporary National Economic Committee, *Investigation of Concentration of Economic Power: Price Behavior and Business Policy* (Temporary National Economic Committee Monographs, No. 1) (Washington: U.S. Government Printing Office, 1940). Table 4, "Prices and Quality Grades for Specified Brands of Canned Goods," pp. 75–90.

at times secured unwarranted profits through branding and advertising or, perhaps in other instances, that their expenditures for promotion have been unwise because they have raised prices too greatly. There is evidence likewise that prices for branded commodities are more rigid than for those which are unbranded or for those in which brand is relatively unimportant. This is indicated by price comparisons made over a period of years for men's shirts, breakfast cereals, and other products.[7] Where brand names were most significant, prices changed more slowly after a reduction in manufacturing costs, and the amplitude of fluctuations was less. It would not be claimed that fewer price changes or changes of lesser amplitude were in the public interest or even in the interest of particular concerns. The point to be stressed here is that branding and advertising furnish the means whereby the manufacturer can, in part at least, control price in his own self-interest.

The manufacturers' power over pricing of branded merchandise was considerably enhanced by the enactment of the Miller-Tydings Act in 1937. This Act, in effect, legalized resale price maintenance on a national basis. Prior to 1931, price-maintenance contracts were illegal. The seller could not enforce a contract whereby the distributor of his merchandise agreed to sell only at prices specified by the seller. In 1931, however, California enacted the first fair-trade law which made such contracts legally enforceable as between two parties who were both citizens of the state. Forty-five states have now enacted similar legislation. Resale price maintenance under the fair-trade laws was, nevertheless, severely restricted until the enactment of the Miller-Tydings Act, for all but the smallest manufacturers sell across state borders, and they could not control prices in states other than the one in which they were located. This Act makes resale price contracts legal in interstate commerce if each party thereto is a citizen of a state which has a fair-trade law.

The control over the pricing of branded merchandise which these laws provide is of considerable importance. Independence and control in price determination, previously given by product differentiation through branding, can be extended through to the final price to consumers, no matter how many market intermediaries intervene. The manufacturer can establish a complete price structure for his products, enforce adherence to it by all distributors, and advertise retail price if he so desires. He can thereby control price-cutting on his merchandise. Considerable discretion must be used in the exercise of this pricing power and, as yet, relatively few firms, although many in the aggregate, have found it feasible rigidly to maintain prices. Most branded products have worthy substitutes, and a price main-

[7] *Ibid.*

tained at too high a level in order to protect dealer margins may divert sales either to national brands, for which price is not maintained, or to distributors' brands.

It is now apparent that branding has both promotional and protectional objectives. Control of the market is a promotional objective, but it likewise serves as a protection to capital commitment in productive facilities through the assurance of continuous demand which it provides. Branding is also protectional likewise in that it makes misstatements and confusion as to origin of merchandise less likely. Producers or vendors of lower-quality or less well-known merchandise are largely estopped from falsifying the source of the merchandise which they sell. The service work on branded goods is both promotional and protectional in purpose. It not only helps to sell a product initially but protects the seller against ineffectiveness of his product in use and the adverse word-of-mouth advertising which may eventuate. Independence in price determination is a protection against abrupt fluctuations in market prices of unbranded goods and to investment through the monopoly element in prices of branded goods. Finally, branding furnishes some protection to manufacturers against adverse actions by distributors of their products. Distributors cannot shift demand so easily from one manufacturer's products to another's. Private brands of distributors, in turn, often protect them against the attempts of the manufacturer to control the market and to dictate distributor's margins through price control.

Specific Branding Problems

In the administration of brands a manufacturer is usually faced with many problems among which the most important are the following: whether to brand a product initially or sell it unbranded; whether to brand materials or parts sold to other concerns for assembly or other manufacturing operations; whether to manufacture under the private brands of mail-order houses, chain stores, or wholesalers; what criteria to use in the selection of brand names, trademarks, and other marks; whether to include a number of products under a family brand or, in contrast, whether to use a different brand for each product in a line; whether to use a number of brands for an identical product; whether to use both a primary brand and secondary brands for the same product in different grades; whether, and under what circumstances, to discontinue or consolidate brands; what procedure to follow when confronted with strong competition from distributors' brands. The manufacturer frequently encounters legal problems likewise. If he is establishing new brands, he must avoid similarity to those of his competitors in brand names, trade-marks, or service marks, and encroaching upon the rights of others as protected

by the Lanham Act or by the common law. Owners of well-known trade-marks have a constant problem of protection and are frequently in litigation as a result of questionable action on the part of other concerns, which either inadvertently or by intent create confusion in the minds of consumers through too great similarity in brands and packages.

Many of these problems arise because of confusion engendered in the minds of consumers as to the source of products or as to their composition or quality. Brands are of significance to consumers for two principal reasons. They provide an identification of the initial source of the merchandise or, at least, of the concern which takes responsibility for it. Moreover, brands stand for *uniformity* of merchandise above all else. The consumer knows the source of the product, and he expects to secure the *same* product in the *same* quality whenever and wherever he repurchases it under the *same* brand. If, for some reason, the identification is unclear and if uniformity is not achieved, the branding problems have not been handled well, and additional problems are bound to arise. Faulty identification is usually a competitive problem, whereas uniformity under a brand is an internal problem. If a concern decides to brand its products, it should identify them adequately and protect such identification against encroachers and create sufficient uniformity under its brands so that they mean something definite to consumers.

The question of whether merchandise should be branded may seem wholly academic to many people. It may appear to them that practically all products are branded, but such is not the case. A large proportion of the supply of textiles, clothing, furniture, miscellaneous household supplies, and other items is sold unbranded. The problem of whether to brand a product is not an uncommon one. It may appear in three guises, namely, whether to brand a finished product, whether to brand a raw material or an assembly part, and whether to manufacture under the private brands of other concerns.

Whether to Brand Finished Products. All products do not lend themselves equally to branding and advertising. For some products branding is both more difficult and less advantageous than for others. To place the diamond brand on walnuts was a difficult task, although finally accomplished at reasonable cost. The branding of fresh meats has never been particularly successful, as the outside of the carcass on which the brand stamp is placed is often cut away before the meat is sold. Since the housewife cannot determine the source of the merchandise, the attainment of one of the primary objectives of branding is thwarted. Packaging has added immeasurably to the possibilities of branding, for products otherwise relatively nondistinctive thus become distinctive, and the practice of simulating difference and exaggerating minor differences to attract demand becomes more effective.

Furthermore, the package often becomes the vehicle for the brand name and trade-mark, whereas the product itself might be difficult to brand.

If a product does not lend itself to innovations by a manufacturer, thereby creating some measure of distinctiveness for it, there is less reason for branding. The feasibility of branding and advertising varies directly with the degree of distinctiveness which a product possesses. There is also less reason for branding products such as notions or gadgets, which are purchased infrequently even though they may be distinctive. They may have only a transitory appeal, and therefore brand means little. The nature of the product is such that the use of a brand to provoke repurchase is relatively unimportant.

Brands are of relatively little importance when the attributes which give value to a product are easily observable by inspection. Contrast medicinals and cotton textiles in this regard. In most instances the purchaser has neither the opportunity nor the ability to judge the curative properties of medicinals. Moreover, they may actually be harmful if they are not prepared with intelligence and care. Thus the identification of their source through brands assumes great importance. Cotton textiles, in contrast, have been largely dominated by design, color, and other shopping characteristics as the basis for motivation in purchasing. They are shopping goods, in contradistinction to those of a convenience or specialty character. While they often have important attributes which are not observable by inspection—for instance color fastness—those which are observable are more likely to dictate choice. Consequently, the brand of the manufacturer is less important to the consumer than in medicinals.

Manufacturers often sell surplus goods unbranded or under private brands. They may feel that a lower price is in order but hesitate to make an adjustment on branded items. A manufacturer may believe that there is a market for a lower-quality product than the one which he produces under his brands. In order to avoid the possibility that the sale of a lower-grade product under a new brand will induce confusion as to quality or provoke substitution of the new brand for the old one, a manufacturer may, at least initially, sell the lower-grade product unbranded. In other instances a lack of financial ability to exploit brands fully may lead to the production of unbranded merchandise.

It should now be apparent that the question of branding is a relative matter, depending on the nature of the merchandise and the position of the manufacturer. If identification is too difficult a problem, if the advantages which may accrue to a manufacturer are not great, and if his financial resources are limited, he may decide against branding, or perhaps, for branding, but without the usual follow-through of extensive promotional work.

Whether to Brand Materials or Parts for Assembly. This question is always a pertinent one when there is a dual market for a manufacturer's products—both to other industries and to consumers. This is the situation for many products, among them textiles and motor-vehicle parts and accessories. Textiles are sold both as piece goods to consumers and as a fabricating material to cutters-up in the garment trades. Both the replacement market and the new-car market are important for producers of automotive parts and accessories. In each instance, manufacturers can utilize brands and go directly to consumers with promotional effort. It is an aggressive procedure, with one or both of two principal objectives in mind, namely, to influence the consumer to purchase directly for home fabrication, as in textiles, or for replacement, as in motor-vehicle parts, or to induce him to prefer the product in initial assemblies. Moreover, the concern which fabricates or assembles the materials or parts may be induced to believe that the inclusion of branded items in his products will increase the demand for them.

Only a small part of the total volume of fabricating materials and assembly parts are identified through to the final consumer. There is a tendency, however, now noticeable in the textile industry, for manufacturers to extend the identity of their products even though they are sold in large proportion to other manufacturers for further processing. It has been a common practice for manufacturers of tires, batteries, spark plugs, and accessories to brand their products. These items, although both noticeable and easily detachable, are very important to the effective performance of the assembly. They are distinctive products, which have hidden values not observable by inspection. In addition, the replacement market for them is substantial, as their normal life-span is considerably less than for the body of the car and other assembled units.

Textiles, in contrast, as a fabricating material, do not possess a replacement market in the same sense. Nevertheless, the replacement of the garments of which they are the principal material is more frequent. In the past the distinctive qualities of textiles were largely those of color and design—qualities which were fully observable by inspection—and therefore brand meant relatively little to the consumer. Now the situation has changed, as the degree of distinctiveness of one manufacturer's product over another's is greater than formerly. Hidden characteristics have assumed additional importance. Few fabrics are made today which have not been improved by recent discoveries in textile chemistry. We hear much of such characteristics as freedom from shrinkage, water repellency, permanent crispness, crease resistance, and fire retardance.[8] Even processes which create

[8] See James C. Cumming. "The $8,000,000,000 Textile Industry: Is It Ripe for Brand Name Promotion?" *Sales Management*, Vol. LIV, No. 8 (April 15, 1945), p. 52.

these characteristics are branded—for instance, the process of Sanforizing to control shrinkage. While many brands in the textile industry, such as "Fruit of the Loom" are old, those of yarn producers, such as Dupont, Cellanese, and Bemberg, and of weavers, such as Pepperell, Forstmann, and Botany, are comparatively new. The branding of textiles is proceeding rapidly, and the reason is that some manufacturers' products have become more distinctive than formerly, and consumers have been made aware of that fact through advertising. At present it is not at all unusual for garment manufacturers or for garment retailers to advertise that items which they sell are made of certain branded fabrics or have been treated with certain processes in order to improve their quality.

At times, manufacturers brand new and unusual materials and advertise them extensively. The advertising is directed both at consumers and at other manufacturers who may use the product. These manufacturers may be influenced directly by the knowledge of a product's attributes secured through advertisements or indirectly by the knowledge that consumers are aware of the new product and its adaptability to consumers' goods. In other words, through branding and advertising, a manufacturer may elicit the support of consumers in inducing other manufacturers to use a material. The branding and advertising of Dowmetal, a magnesium alloy, is a case in point. It has both strength and lightness to a remarkable degree. The Dow Chemical Company in advertisements has suggested a variety of possible uses for the material—among them, for the manufacture of lawn mowers, portable sewing machines, and children's tricycles.

In summary, in order to make branding and advertising of fabricating materials and assembly parts feasible, they must possess distinctiveness, and the variations between one manufacturer's product and those of his competitors must be significant to consumers. Furthermore, the assembly part or material, unless it is of unusual significance in relation to the performance of the complete unit, must be a major item in the final assembly. If it is likewise a noticeable item, one which is detachable and one which will need replacement before other parts are worn out, the feasibility of branding and promotional effort is enhanced.

Whether to Manufacture under Distributors' Brands. Manufacturers seldom prefer to produce under distributors' brands rather than under their own brands. There is not likely to be so great an opportunity for profits or the same degree of assurance of continuity of production at a high level. In periods of excess demand, concerns which manufacture under distributors' brands often attempt to stabilize their production by establishing brands of their own.[9] They seek release from an unsatisfactory situation in which other concerns

[9] See "Private Brands Go National," *Business Week*, January 18, 1947, p. 59.

can summarily withdraw large sectors of demand from them. While there is some mutual interdependence between manufacturers of distributors' brands and their customers, nevertheless, the bargaining advantage is usually with the distributor. There are likely to be numerous sources of supply which he can play one against another to secure low prices and favorable terms. If the demand controlled is substantial, as in the case of large chain-store companies and mail-order houses, all, or most, of a manufacturer's production may be contracted for well in advance. He has then affiliated himself so closely with the brand owner that withdrawal of the contract may well prove disastrous.

In view of the foregoing analysis it may be difficult to discern just why manufacturers take orders for production under distributors' brands. The reason is that they may have no immediately feasible alternative. There are many small manufacturers who have productive facilities but lack the capital and, perhaps, the technical and managerial ability to design products, establish brands and trade-marks, and create a broad market for them. Such concerns may be willing to enter into contracts with large distributors who offer an immediate and substantial volume of business, although assurance of future business is lacking. They are often relieved of the designing function, as they may be asked to produce to the distributors' product specifications. Financial stringency is no handicap—in fact, a deal of this character may be the means of improving their financial position, thereby allowing them at some future time to establish brands of their own.

Large manufacturers of well-known brands may be in a similar position. They may also have production capacity available. Competition may have been particularly strong, or there may have been miscalculation as to the need of capacity initially. The additional output furnished by producing under distributors' brands would permit them to spread fixed costs over more volume and thus possibly increase profits. If a manufacturer is keenly aware of the decreasing-cost nature of industry and has not reached the optimum size of the production unit through sales of his own brands, he may even increase capacity for manufacture under distributors' brands. He may reason that mail-order houses, chain-store companies, and even large wholesalers do or may control a substantial sector of the market for the products which he sells and, moreover, that his refusal to produce for them will not prevent them from securing the desired supply under their own brands. If this reasoning is valid, the fact of producing under distributors' brands will not decrease demand for his own brands disproportionately unless the two are closely connected in the consumers' mind through comments of the distributors' sales people or unless the product under the two brands is markedly similar. It may, *in fact,* be different, and comments to the effect that goods under the

distributors' brand were made by the manufacturer of a well-known competing brand may be unlikely. Under such circumstances, sales under a manufacturer's brand will not be affected by production under distributors' brands to a substantially greater extent than the sales of other competing manufacturers. A manufacturer may then see little reason for turning down orders to be filled under the brands of distributors. In contrast, he may see the possibility of increased net profit.

In our previous discussion, it was argued that a manufacturer may have valid reasons for producing some unbranded merchandise, even though he depends largely on sales of branded items. He may sell surplus, off-quality, or lower grades of product unbranded. In a period of generally declining prices, he may decide to hold the price on his branded items, even though sales volume is somewhat reduced. This decision is more likely if resale prices are maintained under the fair-trade laws or under the Miller-Tydings Act. Under such circumstances he may produce and sell unbranded merchandise to sustain sales volume. Product may be produced under distributors' brands with much the same objectives in mind. Suppose that the total output of a product remains fairly stable despite changes in business conditions, but that the proportion of the total sold in various qualities or price lines varies substantially. This may be the case for hosiery, shoes, canned goods, and other products. Under these circumstances much can be said for manufacture both under company brands and distributors' brands. Perhaps the risk inherent in each is partially neutralized, and the major objective—that is, a continuance of high-volume production—is more likely to be attained.

The establishment of new brands by distributors and the appearance of previously unknown manufacturers' brands are recognized phenomena of a downward movement of the business cycle. Apparently, manufacturers are loath to lower prices on their well-known brands during the early months of a business recession or to lower them sufficiently to hold the market. There is a measure of rigidity in the prices of widely recognized and heavily purchased brands of merchandise. However, if a reduction in sales through a failure to reduce prices on his own brands is compensated for by an increase in sales under distributors' brands, the effect on profits will not be particularly serious. If a lower quality is produced under distributors' brands than under his own brands, a decrease in the level of purchasing power will probably induce substitution of one for the other or, in general, of lower for higher grades of the product. If the manufacturer is selling only high-quality merchandise, he may have to consider lowering the quality under his brand to retain volume of output. Such action is always doubtful as a matter of business policy, as it is in conflict with the principle that uniformity under a brand should

be maintained. The necessity for this action may be obviated if he can get volume from other sources, such as unbranded lines or distributors' brands. While it may be considered administratively difficult to maintain total volume by shifting business between a company's own brands and distributors' brands, it is, in part at least, the result of market action. One or the other may be more attractive to buyers at any particular time, depending on comparative prices, qualities, and the level of purchasing power.

Selection of Brand Names, Trade-Marks, and Other Marks

Brand Names. A reasonable point of departure in considering the selection of brand names is the manner in which they will subsequently be used. While this assertion seems obvious, still there is ample evidence that the question of subsequent use is often disregarded. Consider the brand names of many proprietary medicinals which refer back to their drug components or medical terminology for the physical disabilities which they are supposed to alleviate or cure. The layman usually does not know how to spell these names or how to pronounce them. He has little, if any, idea as to what these brand names may signify by way of component materials or probable curative effect. It may be argued that such names mean something definite to the medical practitioner and the pharmacist and that the products are usually prescribed by them. If the consumer does not have to use names of this character, they may not be a handicap to sales. Still, many products with such names are advertised directly to consumers. Therefore, it is contemplated that the names will be used by the consumer in purchasing.

In the selection of brand names it is well to keep in mind that brand names are constantly used in conversations between buyers and sellers and between potential buyers. Names are used in promotional effort on advertising copy, on package inserts, and in numerous other ways. An effective brand name eases the task of the consumer in procurement and the burden of the manufacturer in promotion. It can also serve as a positive force in the selling effort. Any brand name, through extensive promotion, can be made familiar to the trade and to potential consumers, but the task of so doing is more difficult and costly if the name chosen is not an effective one. For many products the margin of preference for one brand over others is slight, and differences in the ease of using brand names or the ease with which they are recognized may shift purchases from one brand to another.

The question now arises as to what characteristics are desirable in brand names. They should be short and simple and easy to recognize, pronounce, spell, and remember. They should be euphonious if they are to be recalled without difficulty and pronounced easily. A brand

name which may be pronounced in many different ways should be avoided, as confusion results and the manufacturer must then instruct dealers and consumers as to the proper pronunciation. A brand name which is pronounced phonetically is preferable because the likelihood of mispronunciation is reduced. Contrast the brand names Ipana and Pebeco for toothpaste and the brand names Camel and Pall Mall for cigarettes. There is little doubt as to the proper pronunciation of Ipana and Camel but considerable doubt in the other instances for their manufacturers have found it necessary to instruct consumers as to the correct pronunciation.

Another desirable characteristic is that the name should suggest or describe the product, its manufacture or use. On this score Frigidaire and Coldspot seem preferable to Servel and Kelvinator. A brand name which suggests or describes a product is likely to be both appropriate and meaningful to the potential buyer. It is helpful if the brand name can be easily connected with the trade-mark. This is the situation when the manufacturer's name or an abbreviation, such as GE, Armco, and Esso, constitutes both the brand name and, when written in a distinctive manner, also the trade-mark. The brand names and trade-marks of motor vehicles furnish an example. The more distinctive a brand name can be, the less likelihood there is of markedly similar names for like products of other manufacturers and confusion as to the source of supply. In the selection of a brand name, care must be taken to see that the rights of other concerns are not infringed upon through too great similarity.

The characteristics mentioned are somewhat in conflict. A longer, less easily pronounced brand name may be much more descriptive of a product than a shorter one or may have a particular appeal to consumers. Exotic names, although not easily pronounced, may have a strong appeal, especially if some foreign country is noted as a source of supply. French perfumes are a case in point. The name of Sheetrock for wallboard is somewhat long; nevertheless, it indicates the form of the product and suggests that it possesses the strength necessary for construction purposes. The brand name Caterpillar for tractors is excellent as it clearly indicates the type of motor vehicle to which it is applied. The name Motorola is an effective combination for indicating both the product itself and the companion product on which it is used. The name Keen-Kutter for fine-edged tools is descriptive and also indicative of quality. Certain names are helpful for indicating classes of merchandise or manner of use, for instance, Mobiloil and Mobilgas, likewise Bisquick and Pyequick as companion products of General Mills, Inc.

Another brand name with excellent characteristics is Fiberglas. This name is highly descriptive because the product is, in fact, glass fibers. Rinso and Duz for soap powders, Zerone for a nonfreezing

liquid, Sunkist for oranges, and Band-Aid for medicated bandage strips are all effective brand names. One of the best is Bug-a-Boo for a liquid disinfectant. There are many instances, however, in which brand names apparently have little if any connection with the attributes of the products or the manner in which they are used. Under such conditions, a brand name may be a stumbling block rather than a constructive force in the sales effort. Still, a manufacturer who selected an ineffective brand name initially hesitates to make a change. He feels that much time, capital commitment, and promotional effort would be lost. Failure of consumers to recognize a product under a new name might create an advantage for competitors and, for a while at least, seriously reduce sales volume. While the difficulties encountered in maintaining sales volume during the time that consumers are becoming familiar with a new brand name are recognized, nevertheless, they are probably overstressed by business concerns. Substantial changes in packages and labels have been made at times without a loss of sales. A change from an undesirable to a desirable brand name, if effectively merchandised, might not be disadvantageous in the short run and may be highly advantageous over a longer period.

A word of caution is necessary in relation to the selection of highly descriptive brand names for products. Later a company may wish to capitalize on the good will and consumer acceptance for the product first introduced, but the name of the product may be singularly inappropriate when applied to other products which are, nevertheless, closely related both in production and in marketing. There are a number of good examples in the household-appliance field. Servel refrigerators, operated by heat, utilize either gas, oil, or electricity. Beginning in 1926 these refrigerators were sold under the trade-mark Electrolux, one which was singularly inappropriate for a gas or kerosene refrigerator. Therefore, in the middle thirties, Servel, Incorporated, started to sell its refrigerators under the name Servel Electrolux and later changed the name of its gas and kerosene models to Servel. Combination of the two names for an interim period aided in the necessary transition from one name to another. The models which use electric power are still being sold under the trade-mark of Electrolux.[10]

[10] It is interesting to note that the Electrolux Corporation, a manufacturer of vacuum cleaners under the trade-mark Electrolux, obtained patent rights on its vacuum cleaner from the same Swedish concern. Electrolux Corporation apparently registered the trade-mark first but later consented to registration of the same mark for refrigerators by Servel, Inc. This appears to have been shortsighted policy on the part of Electrolux Corporation if expansion into other items in the appliance field was contemplated. The use of the mark Electrolux by two companies in the appliance field has resulted in considerable confusion as to the source of merchandise. Fortunately, both companies produce a quality product, so neither company nor consumers have been seriously harmed by the inevitable association of the two products in the consumers' mind. In fact, each product has probably aided the sale of the

In addition to refrigerators, Frigidaire Division of General Motors Corporation now produces kitchen ranges, water heaters, and washing machines under the name of Frigidaire, although the name is inappropriate for any product which does not reduce normal temperature for preservation of food or other purposes. The General Electric Company produces two general lines of household appliances, the General Electric line and the Hotpoint line. The first name is not restrictive, in that any product could be named General Electric or GE. The Hotpoint brand name, although very descriptive of the utility furnished by some products, is not so appropriate for others. This conflict suggests that a less descriptive name or, perhaps, a company name may be preferable if a company contemplates the manufacture of a complete line in a given field. Emphasis on a particular brand name in promotional activities may create consumer good will for a name which cannot then be carried over to other products acceptably, even though these products are in close alignment both in production and in marketing.

In the selection of a brand name for a new patented product the owner of the patent must recognize the possibility that the name selected may become a generic name for the product and thus capable of appropriation by others when the patent expires. There are many notable instances in which this happened, among them for aspirin, shredded wheat, and linoleum. For instance, if the name Fiberglas becomes what the Lanham Act calls "the common descriptive name" by which glass fiber is known, upon expiration of the patent, concerns other than the patentee not only can manufacture the product but also can call it "fiberglas" if they do not deceive the purchaser as to source of origin. Therefore, it might be advisable for the patentee to select two names, one for the product as a product class and another as a trade-name. Each of the two should then be kept as distinctive as possible. In negotiation over patents or trade-marks and in promotional effort, it should be stressed that the product name is one thing, the trade-name another—for instance, that fiber glass is the product and that Fiberglas is a registered brand name of a particular concern. The strenuous efforts of the National Biscuit Company and the Bayer Company to retain full rights in the names "shredded wheat" and "aspirin" attest to the values which may be lost by a name's becoming generic and thus usable legally by other concerns. In these two instances action was taken too late, for, according to the courts, the names *had* become generic. Other concerns—for instance, the Eastman Kodak Company for the brand name Kodak—have engaged in

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other. Nevertheless, it is not a particularly healthy situation, either for the company, or for the consumer, when considerable confusion exists as to the origin of products through the use of the same trade-mark by two companies for products in the same general class.

extensive advertising to prevent their brand names from becoming generic. Constant association of the brand name with the product name during the life of a patent may likewise serve as a protection when the patent has expired. Purchasers associate the two names, and it is therefore more difficult for other concerns to enter the market successfully, even though they can use the generic name.

Trade-Marks and Other Marks. Much of what has been said about the selection of brand names applies equally to trade-marks and other marks. The brand name, whether company name or otherwise, may be used as a trade-mark if it is distinctive (Niblets) or is made distinctive by the manner in which it is written (Holeproof). Under such conditions, brand names are registrable under the Lanham Act. However, most companies have a trade-mark in addition to brand names. Trade-marks are symbols which contain letters, words, or pictures in some appropriate design. Thus a concern may have three means of product identification—the company name, brand names, and a trade-mark.

Whether it is necessary to have a trade-mark other than a brand name depends upon the nature of the line which a company produces, and whether or not its brand name or names are registrable and protectible. If a company produces only one product or a very few closely associated products under one brand name and that name is protectible, (Holeproof or Buick) there is little need for another trade-mark. In contrast, a company may have a number of brand names, and the trade-mark then furnishes a connection between them. It constitutes a blanket mark by which the members of a family can be recognized. As an example, the Minnesota Valley Canning Company has four brand names—Green Giant, Niblets, Mexicorn, and Del Maiz—under which it packs peas, corn, and asparagus. In advertising and on labels these brands are all identified by the company's familiar Green Giant trade-mark. Similarly, the Flying Red Horse trade-mark of Socony-Vacuum means something more than any particular brand name; it not only associates the brand names but also signifies a certain standard of products and service. When a company produces many dissimilar products under many brand names, some connection through a common trade-mark is even more necessary. For instance, the GE trade-mark on a Hotpoint appliance is a significant factor in inducing purchase.

A trade-mark other than a brand name may be needed if the brand name may not be fully capable of protection. If a brand name is not particularly distinctive, if it is descriptive, either geographically or otherwise, there is always considerable doubt as to whether other concerns can be withheld from using it. While the point might be questioned, there is some basis for the assertion that trade-marks in the form of symbols can be made more distinctive than names, that

priority in use which governs property rights in a mark is more definitely determinable, and, therefore, that the right of exclusive appropriation is more certain.

In the selection of trade-marks, both protectional and promotional objectives must be considered. A trade-mark might be selected which is fully capable of protection but entirely ineffective in promotion. Still the two objectives often complement each other, for a highly distinctive mark is less likely to infringe upon the rights of other concerns and is more likely to be a positive force in promotion. It is less likely to be imitative, either by intent or by chance, and imitation by other concerns is more difficult, apparent, and capable of proof if litigation based upon assertions of too great similarity is necessary at some later date. A highly distinctive mark, such as the picture of the Dutch Maiden for Old Dutch Cleanser and the baby picture for Gerber's baby foods meets both types of objective excellently. From the point of view of protection, a mark should *not* be selected which has too great similarity with marks of other concerns, for confusion as to the origin of products and subsequent litigation is likely to be forthcoming. A mark should not be selected and used unless a concern is reasonably sure of its legal status. Moreover, a mark should be distinctive and not easily imitated, for otherwise there is greater likelihood of attempted imitation, followed by litigation to determine the rights of the parties at issue.

Promotional criteria for the selection of trade-marks are much the same as for brand names although ease of recognition is of greater importance than ease of recall. Names are spoken and written, whereas marks are used chiefly for purposes of recognition. Therefore, the value of a trade-mark for promotional purposes depends largely upon the ease with which it is recognized, the length of time over which it is remembered, the extent to which it attracts the attention of potential buyers, and the degree to which it suggests the manufacturer.[11] Trade-marks should be attractive in appearance, reasonably simple in design, and appropriate to a company's products. They should be easily placed on the product or the package and inexpensive to apply. It is helpful if they can be named and described, for then they have greater promotional value. The sign of the Flying Red Horse, the Green Giant, and the Rock of Gibraltar of the Prudential

[11] In the selection of trade-marks, psychologists have something to contribute. Memory value and thus the probability of recognition of different forms and types of trade-mark are subject to experimentation and thus to quantitative determination. Psychologists say that pictures rank highest in memory value, followed by symoblic forms, words, and letters, in that order. Tests have been made at times of the extent to which customers recognize different trade-marks which are in use. While such tests are of value, it should be pointed out that recognition is an outgrowth both of the memory value of the mark and the extent to which respondents have been exposed to the mark through promotional effort. In the initial selection of a mark, however, recognition tests may be very helpful in reaching a decision.

Life Insurance Company are cases in point. Some trade-marks are closely associated with slogans. There may be doubt in certain instances as to which was developed first. Some trade-marks may have been designed to illustrate slogans. "When It Rains It Pours" for Morton's salt; "It's Time To Retire" for Fisk tires; "Hasn't Scratched Yet" for Bon Ami; "His Master's Voice" for RCA Victor, have been very effective in promotion and have added greatly to the recognition value of the trade-marks. Through constant association of the slogan and the trade-mark, the latter illustrating the former, the trade-mark becomes meaningful, and both give a sales message in a condensed and effective manner.

The foregoing discussion suggests an important criterion in the selection of trade-marks, trade-names, and slogans, as well as in the proper use of a company name in promotional activities. It is the degree of association between these means of identification. They should work together as a team in promotional effort. In the trade-mark and slogan examples mentioned, the association is both close and effective. Although trade-marks should refer to the company name or to brand names, in many instances the association is tenuous and not even recognizable unless they appear in close proximity. A single letter or some intricate design in an oval, square, or rectangle is often used as a trade-mark. When seen alone, it has no significance. Such abstract symbols do not arouse attention, nor are they remembered easily. There should be some reference to the company name or to brand names in marks, for, otherwise, promotional value is lost. Furthermore, unless there is some association between the various means of identification, the value of repetition for securing recognition and customer preference is partially lost. Only through association of trade-names, trade-marks, and the company name are all sources of influence upon the customer fully utilized in the promotional effort.

Coverage of Brands

We are concerned here with inclusion of products under specific brands and trade-marks. Many products may be sold under one brand, or, in contrast, one product in one quality may be sold under many different brands. Moreover, different qualities of a product may be sold under different brands in order to achieve quality differentiation. Brands may be established for particular geographic sectors of the market or for human sectors, such as nationality or age groups. Consolidation of brands constitutes an attempt to reduce the number of brands which cover either a given number of products or sectors of the market.

One Brand for Many Products. The so-called "family" brands or

"blanket" trade-marks cover a group of products more or less closely connected in type or quality. They are used for many products, among them foods, toilet articles, and drug sundries. The primary objective in associating a number of products through a single brand is to connect them in the minds of consumers so that one product will help to sell another. If a particular product has secured a large measure of consumer acceptance either through its unusual characteristics or effective packaging, the consumer may reason that all other products under the same brand are equally acceptable. This relationship is particularly important as between old and new products. The first promotional problem with a new product, and often the most difficult one encountered, is to get potential users to try it under normal use conditions. If it is an excellent product, perhaps superior to the competing product customarily purchased, an initial trial may result in habitual use. The family brand furnishes a foothold in the market for any product which bears it, even though the product is new and untried.

Another advantage in family brands is that promotional costs are incurred for only one brand. For instance, Heinz 57 varieties of canned foods may be advertised as a group rather than as individual items. Swift's Premium brand covers many products which are advertised jointly, although any particular advertisement may feature one product. In contrast, Ivory Soap, Spam, and Crisco, are branded and advertised individually. This contrast suggests a conflict of objectives. A carry-over of good will from one product to another and lower promotional costs are achieved by the use of family brands, but no one product gets as much attention as it would if branded and advertised individually. Each product is somewhat submerged in the group, whereas a particular product may be unusually distinctive and possess attributes which could not be stressed in promotional work for the group as a whole. Therefore, the family brand acts as a leveler, for it implies that all products included under the brand are of equal quality and distinctiveness. Those products which stand out from the group need individual branding and promotion. If there is a large potential market for them, the costs of such promotion are not likely to be prohibitive.

The brand on a product should mean something definite to the consumer. The use of a family brand should suggest that the products included thereunder have some essential likeness, perhaps quality, and that the consumer can have full confidence in any one of them. However, a brand cannot be so significant for indicating particular qualities or uniformity of quality if it covers many products. If the meaning of a brand is too greatly diffused, or if it covers unlike or even contradictory elements, then it ceases to have meaning. Thus it becomes a matter of careful selection of the items to be included un-

der a family brand. If products are closely associated in use; if they appeal to much the same buying motives; if they are distinctive as a group but not particularly so as individual items; if they are of the same average quality, so that the reputation of one product is not injured by the reputation of another; and if there is little difficulty in maintaining standardization for each item, then family brands are feasible and offer important advantages to the manufacturer. Conversely, if these conditions are not met, the establishment of individual brands for particular products becomes more attractive. Not all reasonable objectives can be accomplished by either procedure. Rather it is a question of selecting from alternatives, with choice being dictated by the closeness with which a company's products are associated in type, quality, and use.

The choice of alternatives is not so clear-cut as the foregoing analysis may suggest because a company's name always serves in somewhat the same capacity as a family brand.[12] This has become increasingly apparent for prominent companies, even though their advertising has emphasized individual product brands. Studies made by Armour and Company and The Kroger Co. indicate that consumers are more familiar with the names of Armour and Kroger than with the family brand names of Star and Country Club or than with brand names for individual products. In a Kroger study, only one quarter of the company's bread customers identified the bread which they purchased as "Clock" or "Thiron," although these brand names had been advertised extensively. The other three-quarters identified the bread as "Kroger's." As a result of these studies both Armour and Kroger are now emphasizing the company name and either subordinating or discontinuing certain brand names. It is interesting to note that Swift & Company infrequently uses the brand name "Premium" alone, but, in contrast, the words "Swift's Premium." These are the words which are stamped on fresh meats. This practice is a defensible one, for the company origin of a brand is never in doubt. However, if a company wishes to stress individual products rather than family groups through branding, the company's name could easily be subordinated in advertising, packaging, and labeling so that it would not serve actively as a family brand.

Multiple Brands for One Identical Product. Manufacturers have frequently followed the policy of placing identical units of a product on the market under a number of different brands. At least the manufacturer may strive for complete standardization other than in the brand and, perhaps, in the package. Instances have been known in which consumers became attached to a certain brand and were firmly

[12] See "Private-Brand Departure," *Business Week*, November 9, 1946, p. 48; "Armour Tells How It Did Biggest Relabeling Job," *Advertising Age*, June 24, 1946, p. 54.

convinced that the brand covered an unusual and distinctive product, whereas, in fact, other brands sold in the same market were of identical origin and quality. It is said that flour millers and paint manufacturers put out the same quality under numerous brands. Evidently, the manufacturer believes that he can secure a greater volume of sales under many brands than under one. At least, he can offer distributors something to sell which appears to be distinctive.

Independent dealers may not wish to sell a brand which is sold through chain stores also. Nor may two independent dealers in active competition wish to sell the same brands of certain products. If the use of exclusive agencies is habitual in a trade, a manufacturer may not be able to sell to more than one dealer in a town or in an urban shopping area unless he has more than one brand to offer. Multiple branding may overcome this narrowing effect of exclusive agencies by providing a means for more intensive market cultivation. Co-operation of dealers in local advertising is augmented by granting exclusive agencies. If the advertising is effective, the dealer is reasonably sure that the benefit will accrue to him through additional sales rather than to some other dealer.

Multiple Brands for One Product in Different Qualities. The practice of quality differentiation through branding may be a conscious attempt by manufacturers to serve the market by offering different price lines, or it may be almost forced upon them by the raw materials which they use. The packing industry, for instance, has followed the policy of taking all livestock offered on the market regardless of quality. A particular company will pick and choose from among the livestock offered in order to fill its needs, but it stands ready to take lower-quality animals from sellers. Then, also, in the breakup of a carcass different qualities of certain types of meat appear. For these reasons, meat packers necessarily produce more than one grade of ham, bacon, and certain cuts of fresh meat. Somewhat the same situation is present in fruits and vegetables. Different qualities are necessarily packed, since the quality of the raw material cannot be fully controlled. For some products of the packing industry, such as lard and vegetable shortening, quality is controllable, so there is a choice of alternatives. The packer may place only one quality under a single brand on the market, or he may produce a lower quality and differentiate between the two by the use of a secondary brand.

Usually it is not desirable to place more than one quality of a product under the same brand, especially if the difference is both substantial and easily discernible. To do so runs counter to the general principle that there should be a considerable measure of product uniformity under a brand. If the consumer gets a lower quality at some times than at others, she becomes disgruntled and loses confidence in the brand. One or two experiences of this character may be excused,

as most people have some appreciation of the difficulties of attaining perfect standardization. However, continued experiences are enough to cause a shift in patronage to some other brand and therefore a loss in sales volume. Then, too, failure to set apart higher quality and more distinctive products through branding limits the possibilities of differential pricing. There is at least some possibility of securing a higher average price for a product if quality differentiation is achieved through branding.

Is it ever advisable to sell two or more qualities of a product under the same brand name? In the field of industrial supplies, this practice would not be particularly undesirable because buyers usually have full information prior to purchase and therefore confusion as to quality is unlikely. Confusion in regard to the quality of consumers' goods is much more likely, and the branding problem is thus more complicated. Manufacturers of towels, sheets, and hosiery, in which there are recognized price lines, face this problem if they cater to more than a limited sector of the market. They may wish to sell to different types of retail outlet—for instance, to department stores, smaller independent stores, variety chains, and mail-order houses. If each type is interested in only one general level of quality, then quality differentiation through branding would likewise achieve differentiation by type of outlet. Each type of store would then have a particular brand to sell, and price comparisons between types would be avoided, as well as confusion in the consumers' mind as to what a brand stood for. They would not discover that a particular brand was being sold in various price lines. Confusion as to quality under the brand would not arise if consumers habitually shopped in only one type of retail outlet. However, this assumption is not a valid one. The likelihood is that a consumer who had purchased a brand covering a high quality might subsequently purchase a lower quality under the same brand and that the reputation of the brand would thereby suffer. Even within a single store more than one price line of a product is usually carried, and some measure of confusion is bound to arise unless there is quality differentiation through brands. The buyer may be shown a number of price lines under a single brand simultaneously and thus become aware of the manufacturer's branding policy. Sales people may even be helpful in indicating the variation in quality. Under these circumstances confusion as to quality is not so likely to arise as when different qualities are sold under the same brand in different types of stores.

There are notable exceptions in practice to the thesis that pronounced variations in quality call for different brands. There are price lines in well-known brands of mens' suits, but the price range is usually not great. The Buick Motor Division of General Motors Corporation puts out a range of price lines designated individually only by

number. While there is difference in size, trim, upholstery, and accessories, there is probably little difference in basic quality. The Cannon Mills produce and sell towels in a wide range of quality with no differentiation through brands. The consumer might expect as high quality in one price line as in another, especially if the relative quality was not clearly discernible by inspection. As consumers are always on the lookout for bargains, there would be a tendency to substitute a lower-grade for a higher-grade towel, if both carried the same brand designation. If a manufacturer wishes to trade-down, thereby securing the bulk of his sales in the lower-quality lines, association of different qualities through branding will be helpful. The reputation of his products as a group might, nevertheless, suffer. Purchasers of high-quality towels might well prefer a brand which was not so intimately associated with lower quality items. It might be argued that a brand which covers a wide range in quality would stand for high quality *within* recognized price lines or for general effectiveness in manufacturing operations with its resultant effect on product quality. Despite the advantages of a single brand, quality differentiation through branding seems advisable when the quality produced by a concern varies widely, when quality is not ascertainable by inspection, and when sales are made through different types of retail outlet.[13]

Market Coverage of Brands. Brands may be developed and sold initially only in certain sectors of the market. Wider cultivation of the market may not be immediately contemplated because of limited production facilities or financial resources. Later, when market expansion is attempted, it may be discovered that the use of a brand or a trade-mark elsewhere would encroach upon the rights of other concerns which had likewise cultivated a limited market. There are numerous cases on record of this type. As a result, new brands were developed for other areas in an effort to secure more extensive market cultivation. There are instances in which certain brand names have been considered effective for only certain parts of the national market. However, faster transportation and communication, together with the growth of large-scale industry, have extended the geographical coverage of brands. Legal rights in brands are not so restricted geographically as formerly. It can reasonably be assumed these days that any brand may be sold throughout the national market eventually, even though restricted in sale to a limited area initially.

Market coverage of brands may be limited by the nature of the product and the population elements to which it appeals. Both the product itself and the brand may be designed for some particular

[13] It is interesting to note in this connection that Cannon Mills makes three grades of sheets and that each grade is indicated in the label as being either "Cannon Muslin," "Cannon Percale," or "Cannon Finest Quality Percale." Thus there is quality differentiation, with "Cannon" serving as the common trade-name.

population group—for instance, for Scandinavians or south-central Europeans. Specialized meat products have a market only among peoples with certain national origins. If these people are concentrated geographically, as is often the case, the market coverage of the brand is necessarily limited. Sex or age may be the controlling factor in regard to the number of brands and their market coverage. More than one brand may be called for, although the product itself may not be essentially different. One suspects that certain toilet products for men and women are much alike, although they are sold under different brand names to each sex group. The brand name which would aid in sales to women might be singularly inappropriate for sales to men.

Consolidation of Brands. Questions concerning consolidation of brands arise under a number of circumstances. Perhaps, as in the Kroger case, a company may become doubtful whether individual brands for certain products are desirable, inasmuch as consumers do not identify the product with the brand name but rather with the company name. Executives may doubt whether individual brands have any particular significance as indicating unusual qualities in a product or whether, with the advertising budget available, brand identification and preference can be established for many products as individually branded units. In very large concerns, branding may have been left to particular departments which failed to follow uniform policies. This situation has often prompted a thorough review of branding activities. In the meat-packing industry, for instance, the number of brands used has been decreasing for some years. Horizontal integration of business through mergers has brought the problem of brand consolidation to the fore. The possibility of consolidating brands and thus eliminating what appears to be costly duplication in promotional efforts is always attractive and thus secures attention.

The type of situation which highlights the problems of brand consolidation is furnished by the merger of the Standard Oil Company of New York and the Vacuum Oil Company to form the Socony-Vacuum Oil Company, Incorporated.[14] The new company controlled operating subsidiaries in various parts of the United States, each with is own sectional brands of gasoline and motor oil. The question of quality differentiation by branding also was present as quality differs markedly in petroleum products, particularly in motor oils. It was decided to consolidate the brands in order to permit national advertising, to knit more closely the merged units, and to utilize more fully the good will already attained for the Mobil brand. Lower-grade products were differentiated through separate brands but were not advertised. The Mobil brand name was a very acceptable one, as it

[14] For a case analysis of the branding problems presented by this merger see McNair, Learned, and Teele, *Problems in Merchandise Distribution* (New York: McGraw-Hill Book Co., Inc., 1942), p. 272.

referred directly to the equipment in which the company's products were used.

There appear to be two primary problems in the consolidation of brands: first, to find some means of shifting patronage from the old brands to the new brand without loss of sales volume and, second, to maintain quality under the new brand even though the product may be produced by a number of subsidiaries in different locations. The key to the first of these problems is adequate publicity. If a company moves slowly in making the change and prepares the consumer in advance, so there is full knowledge that the same or even a better quality product can be procured under the substituted brand, patronage can be shifted successfully. Retail sales people can help to avoid confusion during the transition period if they are effectively trained to do the job. Direct association of the old and the new brand names, perhaps by using both together for an interim period, may induce continued patronage. Both brands may be sold for a short time with promotional efforts concentrated on the new brand. If the consumer prefers the old brand, it will be available for him. In time he will recognize the fact that the new brand has all the virtues of the old, and the transition between the two brands will be accomplished. If there is no real need for the brands being discontinued, and if the consolidation of brands is properly handled, a substantial loss in sales volume is unlikely.

In reference to quality maintenance, the solution lies in the establishment of standards and the supervision necessary to see that they are adhered to. This problem may not be difficult if manufacturing operations for the new brand are concentrated in one location. For large companies, particularly after mergers, operations may be considerably dispersed, and the attainment of uniformity under a brand may necessitate the use of traveling supervisors who constantly check the quality of the products.

Competition with Distributors' Brands

Manufacturers of consumers' goods are usually confronted with competition from distributors' brands varying in intensity from product to product and from time to time. With many brands in the food, drug, and cosmetic lines, there is substantial competition of this character. In automobile accessories, particularly in tires, competition between manufacturers' brands and those of chain stores, mail-order houses, and oil companies which operate service stations has been exceedingly strong. Grocery, drug, and other wholesalers have likewise provided severe competition through their private-brand activities.

When distributors establish their own brands, their broad objectives are essentially the same as those of a manufacturer, i.e., greater

control over the marketing process through which control of the market is obtained and some measure of independence in price determination. There is the possibility of greater control over a whole range of activities, including the determination of product characteristics, packaging and labeling, warranty and service, expense and pricing, and thus over gross margin and net profit. The wholesale distributor may even control the retail prices for his brands. He is likewise freed from direct price competition with manufacturers' brands which may become severe enough to reduce gross margin to a low level and net profit to the vanishing-point. He may be able to offer the consumer both higher-quality merchandise and better values. Often the distributor, through private branding, has been able to sell goods at lower prices and still secure a higher gross margin. Data provided by chain-store companies on comparative retail prices of their own brands and manufacturers' brands furnish evidence on this point. In one instance the saving to the consumer through the purchase of a chain's brands ranged between 11 and 41 per cent on a group of items, including tea, milk, bread, flour, cereal, and beverages.[15] While there was no quantitative evidence presented as to variations in quality, the distributor's brands were successful in the market. It would not be argued that either manufacturers' or distributors' brands necessarily offer better values to the consumer. Nevertheless, distributors are able to offer better values at times through purchasing and selling under their own brands. This situation may result in increased profits to them and a larger measure of stability in both profits and sales volume.

A manufacturer may meet competition from distributors' brands in a number of ways. If the distributor is large and well financed and has some control over a considerable sector of the market through the operation of his own retail outlets, it may be advisable to seek contracts for manufacture under the distributor's brand. Production under both a manufacturer's and a distributor's brands may lessen risk and provide for stability of output at high levels. Or a manufacturer may refuse to sell his products to distributors who also carry their own private brands. He may feel that the distributors may push their own brands and substitute them for manufacturers' brands whenever possible.

Refusal to sell to distributors who sell like products under their own private brands may be a shortsighted policy. It is doubtful whether sales to other distributors would be augmented thereby sufficiently to compensate fully for the sales volume lost. For instance, refusal to sell to wholesalers who had private brands would not make a company's products more attractive to chain stores. However, re-

[15] Norman S. Rabb, "The Future of Private Brands," *Proceedings of the Spring Conference of the American Marketing Association, Boston, Mass., May 16, 17, 1946*, p. 134.

fusal to sell to chains or mail-order houses would make a manufacturer's products more attractive to wholesale concerns, for direct price competition with them on identical products would thereby be withdrawn. New wholesale accounts might be secured, wholesalers might be deterred from establishing their own brands, and, conceivably, some might discontinue their own brands. These favorable results would be more likely if direct price competition were the sole or dominant motive for the establishment of distributors' brands. Many large manufacturers follow a policy of selling to distributors even though they have their own brands. The manufacturer's brand may compete successfully even at some price and promotional disadvantage. Furthermore, it *would* continue to be available to those who had developed a preference for it. Then, also, conditions might change to the advantage of the manufacturer. The price differential might be reduced, or the distributor might become unable to secure the necessary volume or quality of merchandise for his own brand.

Another procedure for meeting the competition of distributors' brands is to strive to create greater consumer acceptance for a brand through increased promotional effort. This has often been effective, particularly when potential consumers are not fully aware of a product's unusual characteristics. However, if promotion had previously been extensive, increasing the promotional budget would make necessary even a higher price and a greater price differential favoring distributors' brands. Perhaps a more acceptable procedure would be to improve the quality of the product or its packaging and labeling. If a manufacturer can actually produce and market a superior product, he may compete effectively even in the face of a substantial price differential.

In any event, the manufacturer should determine whether the distributor's brands are, in fact, of lower, equal, or superior quality, and if they sell at a lower price in relation to quality. If distributors actually offer better values, consumers will in time discover that fact, and the manufacturer's sales volume will suffer. If the manufacturer has a quality advantage, some sales volume will always be retained, as there are consumers of high purchasing power who will pay whatever amount is necessary, within reason, to secure superior products. They do not, however, constitute the greater share of the market for consumers' goods in the convenience classification. It is always necessary for the manufacturer to watch price differentials closely and to assess their effect on demand.

The position of the manufacturer in competition with distributors' brands or, for that matter, with other manufacturers' brands is well illustrated by the experience of one of the food processors. A certain high-quality item offered under the company's principal brand was not selling well. An investigation revealed that practically all dealers

carried the brand, that their margins were considerably higher than on other brands, but that it was sold in relatively small volume. Apparently dealers carried the brand as a matter of prestige, or because there was a continuous demand for it on the part of certain regular patrons. But dealers placed greater emphasis on competitors' first-quality brands, although less well known, and upon secondary brands of lower quality. It was discovered that prices of the brand were way out of line. The large price differential could not be justified on the basis of quality alone. Consumers had apparently discovered this and bought the other brands. Some consumers with high incomes continued to purchase the company's brand, but there were comparatively few of them. The company decided to reduce substantially its advertising budget to permit lower prices to dealers. Steps were likewise taken to change dealers' attitude so that the brand would be priced reasonably and given equal opportunity for sale in retail outlets.

The experience of this concern strongly suggests that sales promotion for a branded product which does not possess considerable distinctiveness can be carried altogether too far. This situation frequently is characterized as one in which a manufacturer has advertised and priced his product "out of the market." The procedure begins with a real or a simulated difference in quality for which a slight additional increment is attached to price to augment profits. The manufacturer may engage in extensive promotional activities, which add to price still further. He may then suggest to wholesalers and retailers that the product is more distinctive than competing products and will therefore warrant higher profit margins to the trade. They may also be induced to do some promotional work locally, which is likely to be reflected in the margins which they take. The effect is *cumulative*. The margins taken, if on the customary percentage basis, are always applied to a higher base figure, in addition to being larger in themselves. As a result to this pyramiding, a price differential of one or two cents prior to any addition necessary to defray promotional costs may grow to many cents in the price differential charged the consumer. While a manufacturer, by successful promotion, may achieve a reduction in his costs of manufacturing or physical distribution of his products, still there is always the possibility of trading too heavily on an initial quality differential. Under such circumstances the manufacturer may offer the consumer poorer values than those offered by competitors.

The foregoing analysis suggests that the distributor has an important function to play through his private branding. If the manufacturers' prices get too far out of line, there is always the possibility of the distributor's cutting under and offering the consumer better values. The possibility of additional gross margin furnishes the incentive. Such action is more likely to take place during a downward swing of

the business cycle or during a temporary reduction in business activity. Consumers may be able and willing to pay higher price differentials during good times. However, if business conditions deteriorate, their purchasing power must be used more wisely and small price differentials become more meaningful. They are thus more receptive to distributors' brands. Differentials are also likely to increase because of a greater rigidity in prices for manufacturers' brands. If the manufacturer does not lower his prices along with a decrease in costs of production or promotion, the incentive for the establishment of distributors' brands increases. The distributors' sources of supply are improved as business conditions deteriorate. He can usually buy at prices which take into account lowered costs. Later, during the upturn of the cycle and particularly in a seller's market, distributors may have great difficulty in securing acceptable products under their own brands. Therefore, the proportion of goods sold under private brands varies inversely with fluctuations in economic activity. This suggests that the manufacturer frequently does not follow the path of wisdom in pricing, and that he thereby creates his own competition from distributors' brands. The solution lies in an honest appraisal of the values offered the final consumer and adequate adjustments in price and quality to maintain volume and thwart competition.

PROTECTION OF TRADE-MARKS AND OTHER MARKS[16]

The manufacturer has a twofold problem in reference to the protection of trade-marks and other marks. Not only must he strive to protect his own marks against illegitimate use by others, but also he must act so that the rights of others are respected. Both legislation and the common law concerning trade-marks have given the trade-mark user certain rights and forced him to assume certain responsibilities. Both in the initial designing of trade-marks and in their later modernization, the manufacturer is under the necessity of designing marks which will not cause confusion as to origin between his products and those of his competitors. Usually there is no conscious intent to copy the mark of another concern or to create too great similarity. Such situations most often develop inadvertently. Nevertheless, cases in the courts in relation to trade-mark rights are numerous, and large concerns are frequently engaged in trade-mark litigation.

As trade-mark rights are acquired through priority in use, there has been some doubt in many cases as to the location of rights. All trade-marks have been perpetually contestable, and a trade-mark owner has never been fully secure in his position. Considerable progress in the solution of this problem has been made by the Lanham Act, which

[16] This subject is considered at greater length in the author's book, *Planning the Product* (Chicago: Richard D. Irwin, Inc., 1947), pp. 154–83.

was passed in 1947 after long negotiation. It superseded all other trade-mark legislation, the most recent being the Acts of 1905 and 1920.

Registrable Marks

Trade-marks, service marks, certification marks, and collective marks may be registered under the Lanham Act and receive the same protection. Registration on the Principal Register is permitted even when marks have secondary meanings, as do descriptive, geographical, and surname marks, providing they have become distinctive of the applicant's goods in commerce. Thus, "Elgin" and "Pontiac" may receive the benefits of registration as the trade-marks for watches and automobiles even though they also are the names of cities.

Principal versus Supplemental Register

The Lanham Act established two registers for trade-marks and other marks. Full benefits of registration are accorded to marks placed upon the Principal Register. But the Act also established the Supplemental Register, which provides more limited protection to marks which do not qualify for the Principal Register. The Supplemental Register was established primarily to protect trade-mark owners who sell in foreign countries. In many countries, rights to marks derive from registration rather than priority in use, as they do in the United States; and a great many things are considered to be trade-marks which are not so recognized here. Furthermore, registration in foreign countries often can be had only for marks registered in the seller's own country. The Supplemental Register was designed to permit the registration of anything that other countries consider registrable matter so that these marks could, in turn, be registered abroad.

Restrictions on Registration

The Lanham Act (sec. 2) imposes these restrictions on registration on the Principal Register:

1. A mark must be in actual use in commerce at the time registration is granted.
2. A mark must be capable of distinguishing the goods or services of the applicant for registration from the goods or services of others.
3. A mark must not consist of or comprise immoral, deceptive, or scandalous matter or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute.
4. A mark must not consist of or comprise the flag or coat-of-arms or other insignia of the United States or any state, municipal, or foreign government.

5. A mark must not consist of or comprise a name, portrait, or signature identifying a particular living individual except by his written consent, or of a deceased President of the United States during the life of his widow without her written consent.
6. A mark must not so resemble another mark in use as to be likely to cause confusion or mistake or to deceive purchasers. However, concurrent registration may be granted by the Commissioner of Patents or a court of appeals when both claimants have become entitled to use marks as a result of their concurrent lawful use thereof in commerce prior to any of the filing dates of the applications involved and such concurrent use is not likely to cause confusion or mistake or to deceive purchasers.
7. Secondary meaning marks cannot be registered unless substantially exclusive and continuous use for five years prior to the date of application for registration can be proved.

Qualification for registration upon the Supplemental Register is relatively more simple. The mark must still meet the first five requirements noted for registration upon the Principal Register. However, the mark need not be a technical trade-mark. It may be any trade-mark, symbol, label, package, configuration of goods, name, slogan, phrase, surname, geographical name, numeral, or device or any combination of the foregoing, but such mark must be capable of distinguishing the applicant's goods or services. Secondary meaning marks may be placed upon the Supplemental Register after only one year of use, and even this time requirement may be waived when registration is needed to gain protection for the mark abroad.

Procedure in Registration

Registration of a trade-mark is not a particularly difficult or expensive process. The owner must make written application to the Patent Office specifying his place of residence and citizenship, the date of his first use of the mark in commerce, the goods in connection with which the mark is used, and the manner of such use. He must state that he believes himself to be the owner of the mark, that the mark is in use, and that no other person, firm, corporation or association has the right to use it. If the applicant is claiming concurrent use, he must state exceptions to his claim of exclusive use. The application must be accompanied by a drawing of the mark, such specimens or facsimiles of the mark as may be required by the Commissioner, and payment of the required fee.

Advantages of Registration

Some of the more important advantages of registering a trade-mark on the Principal Register under the Lanham Act are the following:

Registration Allows Cases of Infringement to Be Tried in Federal Courts. This is an advantage for two reasons. First, the Lanham Act provides statutory protection against infringement of a registered mark whenever the infringing mark "is likely to cause confusion or mistake or to deceive purchasers as to the source of origin of such goods or services." This is much clearer than any principle previously enunciated under common law and should offer greater protection to registered marks. But the protection is available only in federal courts. Second, federal courts have, in the past, followed more enlightened legal precedents than have most of the state courts. The states have, in essence, forty-eight varieties of the common law, and thus confusion results.

Registration Is Prima Facie Evidence of Ownership. If a mark is registered on the Principal Register, the burden of proof, in case of conflict over rights, is placed upon the complainant. As proof of priority of use often is difficult and expensive, it is a great advantage to have the opposition assume the burden.

Possible Collection of Triple Damages. In case of a decision favoring the registrant, the courts may award judgment "for any sum above the amount found by the verdict as the actual damages, according to the circumstances of the case, not exceeding three times the amount of the verdict together with the costs" (sec. 35). Aside from the most obvious benefit of this provision, it should serve to deter any party contemplating infringement of a registered mark.

Registration Affords Protection against Infringing Goods Imported from Abroad. Marks recorded on the Principal Register are filed in the United States Treasury Department and are referred to in order to stop the importation of goods which might infringe upon registered marks.

Registration Requires Prior Investigation of a Mark. This is an advantage in that it affords fairly convincing evidence to the registrant at an early date as to whether or not his rights will be contested. Such investigation may save him much trouble and expense later.

Registration Is Constructive Notice of Registrant's Claim of Ownership. The Lanham Act provides that registration of a mark on the Principal Register or under the Acts of 1881 or 1905 "shall be constructive notice of the registrant's claim of ownership." There always existed uncertainty as to whether registration of a mark under the Act of 1905 would give protection in territories in which the mark was not as yet used. Because, under the Lanham Act, registration *is* notice, no person can start to use the mark in *any* area, once a mark has been registered, and claim that he was unaware of the registrant's prior claim to it.

Incontestability. Rights in a mark may, under certain circumstances and with certain exceptions, become "incontestable" after the

mark has been on the Principal Register for five years. This provision of the Lanham Act was not included in prior trade-mark legislation.

To achieve incontestability, a mark must meet these conditions (secs. 15 and 33b):

1. It must be in use and must have been in continuous use in commerce for at least five years subsequent to registration.
2. There must have been no final decision adverse to the registrant's claim of ownership or his right to keep the mark on the Register.
3. There must be no pending litigation involving the owner's rights in either the Patent Office or the courts.
4. Within one year subsequent to the expiration of any such five-year period, the registrant must file an affidavit with the Commissioner of Patents setting forth that the above conditions exist.
5. The mark must not have become the generic name of an article.

The term "incontestability" really is a misnomer in this instance, because a mark which has gained incontestability can be challenged on numerous bases. A mark is not actually incontestable other than in the sense that another party cannot, even by fully substantiating his claim of priority of use, successfully challenge the right of the registrant to use the mark. The right of exclusive use can be challenged, however. Another party may be able to secure the rights of concurrent use and registration under certain limitations as to area of use or product. Under these circumstances, incontestability becomes an incontestable right on the basis of statutory law to concurrent use and registration.

The Lanham Act specifies certain grounds on which registration of a mark may be canceled. These grounds, considered later in this chapter, also may be used as bases for challenging incontestability. It may also be challenged if "the mark has been or is being used to violate the antitrust laws of the United States." This provision in the Lanham Act had not appeared in previous trade-mark legislation. It has been severely criticized by business executives, partly because it constitutes an additional hazard and also because of uncertainty as to how it will be interpreted. It is not clear whether an old violation can be cited in a defense by an infringer, thereby prejudicing the position of the plaintiff who has attained incontestability for his mark. The words "has been" in the provision establish this possibility even in cases where the plaintiff's recent conduct in complying with the antitrust laws has been exemplary.

A retroactive proviso of this character may have some justification, but it introduces a factor into trade-mark litigation which is likely to provide aid and comfort to those who infringe legitimate rights and to delay proceedings without sufficient reason. Much depends upon the interpretation of the intent of the provision. Until this is clarified,

there may be some question as to the wisdom of seeking incontestability. Once it is achieved, antitrust-violation defense by the infringer may be brought into play. Otherwise, it cannot be, because violation of antitrust laws is not a ground for seeking cancellation of registration. Therefore, a trade-mark owner may become more vulnerable if his mark has achieved incontestability.

While uncertainties surround "incontestability," nevertheless it may be a valuable consideration. At least, a concern cannot lose the right to use a mark on which incontestability has been established because another party used it in the first instance. Moreover, it is not likely that a mark will have to be shared with other concerns—that concurrent rights will be granted frequently. There probably will be fewer instances in which concurrent use and registration is granted—perhaps even fewer cases of infringement than formerly.

Limited Advantages of Registration on Supplemental Register. There are many advantages of registration on the Principal Register which are not available to a registrant whose mark is recorded on the Supplemental Register (sec. 26). Specifically, marks on the latter (1) are not prima facie evidence of the registrant's ownership; (2) are not constructive notice of the registrant's claim of ownership; (3) may not become incontestable; (4) may be subject to cancellation at any time at the instance of any person who believes he is or will be damaged; (5) may not be involved in "interference";[17] (6) may not be filed in the Treasury Department to be used to stop importations.

Other Provisions of the Lanham Act

In addition to the provisions relating to incontestability and constructive notice of a registrant's claim of ownership, the Lanham Act contains a number of other features which distinguish it from previous trade-mark legislation. Some of them are discussed briefly below.

Concurrent Registration. Concurrent *use* of trade-marks has long been recognized under the common law,[18] but concurrent *registration* of trade-marks was not provided for in any trade-mark legislation prior to the Lanham Act. This conflict between the statutory law and the common law led to considerable confusion and often to inequity. The Lanham Act now removes this conflict and grants the right of concurrent registration to more than one user, when, prior to any of the filing dates of the applications involved, the mark has been honestly

[17] The Commissioner of Patents may declare that an "interference" exists when application is made for registering a mark which he believes is likely to cause confusion or mistake or to deceive purchasers because of its resemblance to a mark already registered or for which application for registration has been made.

[18] For typical rulings on this point under the common law see: *Hanover Milling Co.* v. *Metcalf*, 240 U.S. 403; *U.S. Drug Co.* v. *Theo. Rectanus Co.*, 248 U.S. 90; *Griggs* v. *Cooper*, 279 U.S. 156.

used by them independently of each other, either on different goods or on the same type of goods in different sections of the country.

There can be little doubt of the advisability of granting concurrent registration if the right of concurrent use is to be recognized, as it has been so frequently by the courts. Yet, while it can strongly be argued that the rights legitimately acquired by each of two or more parties to the same trade-mark should be protected, still it is not desirable from the consumers' point of view that more than one party should have concurrent rights in a mark. Confusion is likely to result as to the source and quality of merchandise under a mark. Furthermore, from a company's point of view, a restriction of the area in which sales can be made under its trade-mark is contrary to an inherent tendency toward expansion. If a firm uses national publications for advertising, there is a waste incurred if sales cannot be made in all parts of the national market. Breaking up the national market into various "private" markets through granting concurrent rights in a trade-mark tends to reduce sales volume for each concern and to increase both their production and distribution costs. Thus there is some question as to whether the rights of concurrent use and concurrent registration should be granted.

Use of Registered Trade-Marks by Related Companies. Under previous trade-mark legislation, a company could not register its marks if they were used by its subsidiaries, and there was some uncertainty about the effect of licensing on trade-mark rights. The Lanham Act permits the use of trade-marks by related companies and by licensees without affecting the rights in the mark, including the right of registration. It also establishes certain requirements which assure that use will not be abused. The registrant must control the nature and the quality of the goods and services in connection with which the mark is used. The mark must not be so used as to deceive the public, and the use must inure to the benefit of the registrant.

Assignment. The Lanham Act clarifies the rules governing the assignment of trade-marks. Under the common law, a confused situation had developed. It was never clear whether the entire business had to be assigned in conjunction with a trade-mark, or whether just that portion of the business to which the trade-mark applied had to be included. The Lanham Act clearly provides for the assignment of trade-marks with the goodwill of the business or that part of the goodwill of the business connected with the use of, and symbolized by, the mark. It is specified that any assigned registration may be canceled at any time if the registered mark is used by the assignee, or with his permission, in such a manner as to misrepresent the source of the goods or services sold under the mark.

Amendment of Certificates of Registration. The Lanham Act recognizes that modern business is dynamic and that such factors as

changes in the channel of distribution used or package and display techniques may require changes in the trade-mark if it is to continue to be effectively employed. Certificates of registration may be amended for good cause, but the amendment must not involve changes that alter the general character of the mark.

Cancellation of Marks. There are many grounds on which the registration of a mark may be challenged and, perhaps, canceled. One writer has listed twenty-one of them, sixteen of which apply to trade-marks as such and the other five to certification or collective marks.[19]

Among the grounds for cancellation are the following: (1) the registration was fraudulently obtained; (2) the registered mark has been abandoned; (3) the registration contains matter absolutely prohibited, such as the flag, or deceptive or scandalous matter; (4) the mark has been assigned and the assignee is so using it as to misrepresent the source of goods or services; (5) a certification mark was granted registration in violation of certain provisions of the Act; and (6) the mark has become the common descriptive name of an article or substance on which the patent has expired.

To prevent the accumulation of abandoned marks on the Register, the Lanham Act provides that a certificate of registration shall be canceled after only 6 years of the 20 years for which it may remain in force unless during the sixth year the registrant files with the Commissioner of Patents an affidavit showing (1) that the mark is still in use or (2) that its nonuse is due to special circumstances which excuse such nonuse and is not due to any intention to abandon the mark. This applies to marks registered on either the Principal or Supplemental Register.

Under common law, trade-mark rights frequently have been lost because a product name had become generally accepted in everyday language. For instance, the names "Linoleum" for a floor covering, "Shredded Wheat" for a breakfast cereal, "Aspirin" for a drug, and "Cellophane" for a wrapping material all *have lost* their trade-mark significance.[20] The danger of a name becoming generic continues under the Lanham Act, and business concerns must take all possible precautionary measures against attack on this basis. Some of these measures are initially to devise alternative names for the product as such and the company's brand; to use the company's name with the mark—for instance, Owens-Corning Fiberglas instead of just Fiberglas; to control the use of the mark by licensees; and to take prompt action against those who use the company's mark in a generic sense.

[19] Percy E. Williamson, "Trade-Marks Registered under the Lanham Act Are Not 'Incontestable,'" *Printers' Ink*, Vol. 219, Part I, No. 10 (June 6, 1947), p. 68, and Part II, No. 11 (June 13, 1947), p. 46.

[20] See *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111 (1938); *Bayer Co., Inc.* v. *United Drug Co.*, 272 Fed. 505 (D.C. S.D. N.Y., 1921); *DuPont Cellophane Co.* v. *Waxed Products Co.*, 85 F. (2d) 75 (C.C.A. 2d, 1936).

It also will help to stress in all advertising and other promotional material that the mark designates not a product class but the company's particular product.

There are four bases for cancellation peculiar to certification marks. Registration of a certification mark may be canceled if it can be shown that the registrant does not or cannot control its use; if the registrant himself produces or markets goods to which his mark is applied; if the registrant permits the use of his mark for purposes other than as a certification mark; and if the registrant "discriminately refuses to certify or to continue to certify the goods or services of any person who maintains the standards or conditions which such mark certifies."

Action leading toward cancellation may be taken by any person who believes that he is being or will be damaged. Furthermore, the Federal Trade Commission may apply for cancellation of a mark registered on the Principal Register. This is something new in trade-mark legislation which provides a new and powerful potential adversary to business concerns which are attempting to retain exclusive rights in a mark. The grounds on which the Commission may apply for cancellation are limited to those enumerated in the Act, but they cover a wide field.

Before the Lanham Act, an owner might have lost exclusive rights to a mark if another concern used the mark and the owner was unable to uphold his exclusive rights in court because his mark had become a generic name. Still the situation was one in which two concerns in competition tested their rights in the courts if other measures failed to bring voluntary agreement. Now the situation in which the owner may find himself is entirely different. The Federal Trade Commission may go out of its way to find situations in which brand names used in marks have assumed some measure of common use in everyday language as the name of an article. This may, conceivably, become a charge commonly made in anti-monopoly actions by the Commission. In any event, business executives are fearful that marks will be challenged frequently by the Commission, and they feel that the scales are weighted in its favor.

Concluding Remarks

The revision of the statutory law on trade-marks started in the early twenties—about twenty-five years before the Lanham Act (through which the task was accomplished) went into effect. The primary reason for the duration of this effort, was the inherent complexity involved in framing legislation which would adequately protect the legitimate rights of business entities as producers and distributors of products and likewise protect consumers. There were many

parties whose interests were directly affected and often conflicting. Their ideas differed as to what constituted effective protection. Any legislation, but particularly legislation of this character, is always a compromise. Therefore, no one is likely to be completely satisfied with the Lanham Act. Still, the protection of trade-marks and other marks has been considerably enhanced with resultant benefit to the business community.

Through the passage of the Lanham Act, trade-mark legislation is much more in step with the needs of business than it had been in the past. Much has been done to codify and clarify previous trade-mark law. Prior to the Lanham Act, many of the decisions of the courts affecting trade-mark rights had not been recognized in statutory law—for instance, those concerned with the right of concurrent use and the transition of a mark to a common descriptive name. As many legal decisions of the past are now recognized in statutory law for the first time, decisions of the Patent Office of an administrative character are more likely to be in line with those of the courts.

Substantively, the Act gives promise of providing numerous important benefits. The permission for use of trade-marks by related companies without affecting registration gives expression in law to a prevalent and useful business practice. Registration of collective, service, and certification marks gives protection to marks which, in modern society, require protection as much as marks applied to goods. The registration of secondary-meaning marks overthrows an outmoded legal principle whose stringency has long handicapped business. Assignment of trade-marks has been made less difficult, and under conditions which are more realistic. Progress toward incontestability and freedom from perpetual vulnerability has been made. Moreover, the trade-mark register and the new registers for other marks of the Patent Office should henceforth contain more of the marks used in business than formerly and yet be relatively free of obsolete marks which are no longer in use.

On the other hand, many doubts and uncertainties still remain in reference to the maintenance of trade-mark rights. All difficulties have not been overcome, and some additional ones have been created, or so it now appears to businessmen. In particular, those provisions of the Act which permit the Federal Trade Commission to apply for the cancellation of a mark and permit lack of compliance with antitrust legislation, either past or present, as a defense which may be invoked by an infringer under incontestability, appear formidable. Some of these doubts, fears, and uncertainties may be overcome shortly. Much depends on the manner in which various provisions of the Act are interpreted by the Patent Office and, particularly, by the courts. Much depends likewise upon whether the responsibilities placed by the Act upon the Patent Office and the Federal Trade Commission are exer-

cised intelligently and with restraint, as well as with full consideration both for the public interest and for the interest of trade-mark owners.

REVIEW AND DISCUSSION QUESTIONS

1. Distinguish between the following terms: brand, brand name, trade-mark, trade name, certification mark, service mark, collective mark. How do you account for the fact that the Lanham Act seldom, if ever, mentions brands, although it obviously is concerned with them?
2. Branding has been called the key to modern developments in the marketing of manufactured products. Comment.
3. Distinguish clearly between the types of trade-mark or other marks which may be registered on the Principal Register and on the Supplemental Register.
4. Indicate what characteristics are desirable, also what characteristics should be avoided, in the selection of brand names and trade-marks.
5. Despite the additional costs of promotion, some companies market identical units of a product under a number of brand names. How do you account for this practice?
6. What is the motivation behind the development and promotion of distributors' brands? What action would you suggest that a manufacturer take when distributors of his products develop and promote brands in direct competition with those which he sells?
7. What factors might well be considered in arriving at a decision on whether various brands covering substantially similar merchandise should be co-ordinated under one brand as a consequence of a merger of two or more competing concerns?
8. Businessmen long have desired incontestable rights in trade-marks and the assurance which such rights would provide. However, trade-marks were always contestable prior to the passage of the Lanham Act. Why? Nor has contestability entirely been removed under the Act. Comment.
9. Distinguish between action based upon infringement and upon unfair practice as bases of legal action by one company against another.
10. Legal decisions in relation to trade-marks made under the common law since the Trade-Mark Act of 1905 was passed and amended, also certain changes in business practices which had been made in the intervening years, were recognized in various provisions of the Lanham Act. Comment.
11. "While rights in trade-marks legitimately acquired can be protected by concurrent registration, still it can be argued cogently that concurrent registration is not in the public interest." Comment. "Applications for concurrent registration, while permitted under the Lanham Act, will probably be made less frequently as time goes on." Why?
12. How can a manufacturer prevent his brand name from becoming generic and thus incapable of protection either under statutory or common law?

13. Early in 1947 the Chester H. Roth Co., one of the largest manufacturers of unbranded hosiery, launched its own nationally advertised brand—Esquire hose for men. The company did not discontinue the production and sale of unbranded and private brand hosiery. Apparently the company has attempted to gain the advantages of a national brand without sacrificing the distribution economies of unbranded merchandise. The same sales organization handles both Esquire hosiery and the other parts of the line.

    What advantages did the company probably expect from the establishment of the Esquire brand of men's hosiery?

14. Late in 1946 The Kroger Co. announced that forty-nine of the company's private labels covering quality grades would be discontinued and that all of the products covered under them would be placed under the "Kroger" brand. In lower grade lines the old designations were to be continued for the present. By this action such familiar brand names as Country Club, for coffee; Clock, for bread; Latonia Club, for beverages; Sudan, for spices; and May Gardens, for tea were withdrawn.

    What conditions may have prompted The Kroger Co. to take this action? Discuss both the negative and affirmative aspects of a "family" brand for a chain store company.

15. Mark Cross is a well-known firm which has built up a reputation for high-quality leather goods, such as wallets and billfolds, luggage, men's and women's gloves, women's handbags, and fancy leather novelties. Leather goods are also imported from abroad, principally from Europe. Recently the company added a line of men's toiletries. These are luxury items with unusual properties and of very high quality. Sales are made through company-owned retail outlets, also through approximately 2,000 dealers, principally department stores, specialty shops, haberdasheries, and jewelry stores.

    Would you recommend that all of these items be promoted and sold under one brand name, "Mark Cross"?

16. Cannon Mills, Inc., manufactures towels, sheets, and hosiery and sells them all under the brand name of "Cannon." This brand name is considered by the company as an identification which signifies the reliability of the manufacturer and his ability to produce merchandise that meets standards which are necessary to insure that the product is *a good value at its price*. For instance, the name "Cannon Towels" indicates that they are manufactured by Cannon Mills, Inc., and that each one of them is the best value in style, color, and construction which the company can produce at that price. Except for sheets, there is no quality differentiation by brand name.

    Appraise the Cannon Mills, Inc., brand policy, also possible alternative policies which merit consideration.

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Chapter V

PACKAGING THE PRODUCT

PACKAGING, branding, and labeling form a triumvirate with which management must deal almost concurrently if an effective product is to be placed on the market in a reasonable length of time after it is developed and tested. Packaging has highly technical aspects—for instance, the question of moisture control—but relatively little attention will be given in this chapter to technical considerations other than to indicate their importance. Rather, attention will be focused on the objectives of packaging, organization and procedures, and broader questions of policy.

Basic Objectives in Packaging

The extent to which products have been packaged in recent years is quite evident through observation in any grocery, drug, or variety store. Many products which people thought could not be packaged successfully, either because of their physical characteristics or because inspection prior to purchase was habitual, are now being sold in packaged form. Transparent materials and more effective product standardization have helped greatly, since they have either permitted inspection or have made it less necessary. Such products as coal and lumber are even packaged to a limited extent. It now appears that few products frequently purchased by consumers completely defy packaging. Furthermore, packaging can usually be done in a manner which will accentuate purchases.

There are many reasons for this increase in the use of packages. Foremost is the fact that a package provides a means for identification of a particular manufacturer's merchandise which might otherwise appear identical to that of other manufacturers. It likewise furnishes a vehicle for brand names, trade-marks, and labels. Packaging can be used to create the semblance of distinctiveness in a product in which little distinctiveness actually exists. Thus packaging provides an opportunity for demand-creation efforts through which consumers' purchases can be directly influenced.

Objectives in packaging can be well illustrated by the action of the oil companies in placing automotive lubricating oil in tin cans. The

of. The cost of packaging is admittedly substantial, but there may be savings in costs as well as promotional advantages which serve as a counterbalance and perhaps leave something by way of net advantage.

Objectives in Repackaging

A company's objectives in repackaging a product are basically the same as for packaging initially. By such action company executives hope to affect the course of demand or to improve competitive position through cost reduction. The latter may or may not affect demand, depending upon whether cost reductions are reflected in price decreases or are allowed directly to augment profits. Demand may be affected through a promotional advantage secured through improving the package from an artistic or a utilitarian point of view. Improvements of both sorts may be made by the same repackaging effort, but more frequently they appear to be in conflict. In any event, it is hoped that the change will attract new customers, retain the patronage of old customers, and arouse greater interest in the product on the part of salesmen, wholesalers, and retailers.

Promotional Advantage through Greater Artistic Appeal. When, through a package change, greater artistic appeal is achieved, a package attracts more attention to itself in retail outlets. A package may arouse a desire to purchase through its shape, coloring, pictorial illustrations, persuasive copy, or the visibility of merchandise which it affords. The Duraglas container, for example, permits the prospective buyer to determine by inspection the kind of fruit or vegetable inside, its color, its size, how much juice there is, and about how many servings the contents will provide. For some products the package virtually sells the product. In the case of perfumes, the package is, in part, a product independent of the merchandise which it contains, for it appears as an artistic object on a lady's dressing table. Whether the package or the product is uppermost in the consumers' mind when purchasing may even be in question. For other products the package is of less importance, but, if it is outstanding in its artistic qualities, it may inspire impulse purchasing and achieve trial use for a product. The battle of promotion is then more than half-won. If the product itself has real merit, trial use may result in habitual use by new, satisfied, and relatively permanent, customers.

The package now has greater responsibility in selling than formerly because of the increased importance of self-service stores.[6] In such stores, packages compete directly without interference through the comments of retail salespeople. If packages are attractive, they are more likely to secure effective display. Retailers are more willing

[6] See articles in *The Package as a Selling Tool* (Packaging Series, No. 19) (New York: American Management Association, 1946).

to use the display materials furnished by the manufacturer. Something new, different, and of real artistic merit helps to make retail outlets more attractive to consumers, and gains the co-operation of dealers. Retailers may likewise benefit directly through increased sales volume. In a series of experimental studies carried on in retail outlets, E. I. duPont de Nemours and Company found that toilet paper, bottled food products, link sausage, and baked goods sold in appreciably larger quantities when wrapped in cellophane.[7] There was evidence likewise that consumers would pay higher prices for products so packaged, and that relatively unknown producers could compete with reasonable success with their better-known rivals through more attractive packaging.

Promotional Advantage through Utilitarian Appeal. When a package change is made which will increase the utility of a product, a very tangible promotional advantage is secured. Furthermore, there is no better reason for a package change than this, for it satisfies broad economic and social objectives. Change as a merchandising expedient, or even change to improve the artistic qualities of a package, might be frowned upon by consumer groups, for no additional utility is given thereby, unless aesthetic enjoyment can be considered as such. But when, through package change, the quality of a product is preserved for longer periods, there can be little question in regard to the benefits received by consumers.

Some groups are not impressed by the argument that packaging *is* a competitive weapon and that maintenance of competition is itself of social advantage, even though no direct benefit to consumers is immediately discernible; and, therefore, that the use of packaging for promotional purposes can be justified. This may constitute sufficient justification in the minds of some people, but surely the defense is in a stronger position if utilitarian benefits also are present.

Numerous ways have been discovered for increasing the utility given by packaged products. The use of new materials which delay or prevent deterioration has been mentioned. Moisture-proof cellulose wrappings are a case in point. Improved closures have prevented waste and maintained quality during the period of use. For facial cream, shallow jars have been adopted with sufficiently wide openings to permit the user to get all the product from the jar without difficulty. Changes in packages may allow for easier stocking in the pantry or refrigerator. This is one of the advantages claimed for the paraffin-coated paper container for milk and for the "square" milk bottle which are being used to an increasing extent. It was claimed in a New York newspaper advertisement that a two-quart container takes no more room in a refrigerator than a one-quart glass bottle.

[7] See *Michigan Business Cases* (Market Analysis Series, Nos. 7 and 8) (Ann Arbor: Bureau of Business Research, University of Michigan, 1935).

It was also claimed that purchase in two-quart paper containers saves 10 per cent on the milk bill, that the sealed-tab lid opens easily and closes tightly, that milk pours conveniently without dripping, and that milk is mixed with cream as you pour. Washing and returning of the container are no longer necessary. Surely, these are tangible advantages of a utilitarian nature, but in all probability there are some disadvantages likewise.

Utility may also be increased by a change to dual-use containers. These, in effect, constitute a premium. If the cost of the product to the consumer is not substantially more when such a container is substituted for one with a single use, a better value is obtained. If, however, the cost is considerably more, the additional price necessarily charged may be a handicap to sales. If dual-use containers are to furnish a positive promotional advantage, care must be exercised to avoid giving the impression that the cost of the container has added greatly to the price of the product. The consumer must be made to feel that he is getting something for nothing. Containers of this sort have been used much for gifts and novelties—items of infrequent purchase and relatively high value, such as jewelry, razors, cosmetics, and high-priced cigars and candy. Whenever the value of the container is a small part of the value of the finished product and the form in which the product reaches the consumer means much, these containers may be used effectively.

Finally, a consumer may get additional utility from a product if the range of sizes is a reasonable one in view of his needs and desires. Whether the range of sizes and other package characteristics are acceptable to consumers should be determined through market research. Certain consumers may use much of a product and desire the savings available through purchase in "jumbo" packages. Lately there has been much emphasis on purchase in larger packages of milk, fruit and vegetable juices, cooked cereals, and certain drug products. Other consumers may use a product in small amounts and infrequently. For them purchase in large packages might result in inconvenience, deterioration in quality, and wastage. Repackaging to make adjustments in size in view of known consumer reactions should add to utility and improve competitive position.

Promotional Advantage through Family Resemblance. For one reason or another, the various packages of a particular concern may have little if any resemblance. Responsibility for packaging may have been dispersed among different departments in large concerns, or executives of an earlier day may have thought that each package should be highly distinctive. Mergers have often brought together various products of like general character but with quite different package characteristics. There may come a time, however, when it is considered advisable to repackage a line of products in order to draw

them more closely together so that they constitute a family group. Similarity in package form, in labels, or in use of the company name will furnish the necessary association. Each product can then help to sell the others through a carry-over of good will from one product to another. New products may have a more favorable reception in the market through this association. Recognition of the source of the merchandise is also more likely.

A few years ago, General Foods Corporation changed to similar packages for its Post cereal products, Grape-Nuts, Corn-Toasties, Grape-Nuts Wheat-Meal, Grape-Nuts Flakes, Raisin Bran, and 40% Bran Flakes. The new packages featured the same color scheme (red, white, and blue), and the same shape, design, and style of lettering.[8] To assure identification during the transitional period, only one side of each package was changed, the other remaining constant. Later the departure from the old packages was completed. The change was well publicized to both the trade and consumers.

In this case, the products were similar in character and use, and association through packages appeared advisable. There is always the danger, however, of going too far in seeking family association. Confusion may result if there is insufficient individual brand identity to permit the shopper quickly to select the brand wanted from retail store shelves where all of a company's products may be displayed side by side.

A nice balance is needed between similarity in package design for promotional purposes and individuality for easy brand identification by the consumer. If a manufacturer's products are so closely related that they are likely to be placed together on the retailer's shelves, he may lose more than he gains by close similarity. However, if the products are similar in form and associated in use, yet will appear at different places on the dealer's shelves, a considerable degree of family identity may be beneficial from both the technical and promotional points of view.

Apparently the trend is toward breaking down a complete line into natural classification units and giving each one its own distinctive

[8] "About Face! General Foods Introduces the 'Changeover' Package for the Post Cereal Family. . . . New Design Front, Old on the Back, during an Introductory Period," *Modern Packaging*. Vol. XIX, No. 6 (February, 1946), p. 95. General Foods was particularly cognizant of the need for dramatizing the change in packages, thereby facilitating the transition from the old package to the new. Display materials were prepared for use in retail outlets. For instance, a die-cut folder was provided, designed in the form of folded paper cutouts. It opened up to show six little sisters "with troubled faces" dressed in the old packages. Under these pictures the copy read, "Six little sisters all in a row. But are they related? No one would know." On the other side were the sisters dressed in the new packages with the copy "The same six sisters now they can boast; we're all dressed alike and all named Post." Promotional materials such as this are very effective for acquainting consumers of a change in packages, thereby overcoming the possible disadvantage of abandoning a long-established identity through packages.

package design and color scheme. Family resemblance throughout a line is still maintained through the use of the manufacturer's name or trade-mark as a distinguishing characteristic on all products in the line.

Extension of the Market. Changes which make packages more durable and thus able to stand longer haulage and more abuse during shipment may extend the market for an individual concern or lessen the need for packaging at intermediate points. Reduction in the weight of a package for a relatively low-value product may have like effect, as transportation costs may be the limiting factor to market extension. Changes in packages which reduce perishability of merchandise likewise may extend a market. Containers so costly in relation to the value of the product itself that they must be repossessed by the manufacturer and used many times place a dual transportation load upon the product. Costs must be assumed not only for the initial transportation of the product to the point of consumption but also for the return of the containers. A lighter container which can be disposed of after use will cut transportation costs and make it possible for a manufacturer to sell further afield. For example, in the beer industry there probably has been some realignment in territorial coverage of particular concerns since beer has been packaged in cans as well as in bottles and barrels. Packaging has probably lessened the advantage enjoyed by producers in the area of their location. As transportation costs become less significant as a determinant of the supply source, other factors, such as efficiency of production, decreasing cost through greater volume, and greater distinctiveness of product, become more important. They may lead to a shift in patronage either through price concessions or through greater preference for the product itself.

Possibilities of Cost Reduction. Frequently cost reduction is a secondary, rather than a primary, objective in repackaging. The primary objective may be to gain promotional advantages or simplify the product line. A company may find that some of the sizes in which its products are offered have insufficient demand to justify their continuance.[9] Thus standardization of sizes and perhaps of materials may be decided upon with the expectation of savings. On the other hand, a change in packages made primarily for promotional reasons may be accompanied by substantial cost-reduction opportunities. In one particular instance, a manufacturer of breakfast cereals repackaged his line "at no cost." He found that his cost reduction more than com-

[9] The simplification of packages by Carson Pirie Scott and Company, of Chicago, Illinois, furnishes an excellent example. See Clinton K. Royce, "Simplification of Packages for Department Store Private Brands," *Packaging Standardization and Simplification, Informative Labeling,* (Packaging Series, No. 4) (New York: American Management Association, 1942), pp. 3–23.

pensated him for the expenses of the repackaging effort. At times it is difficult to determine whether the major objective is one of promotion or cost reduction. For instance, Standard Brands, Incorporated, repackaged its Chase and Sanborn coffee, and later widely publicized the claim that, although its coffee was packaged in a cheap paper container, the speed of delivery to the dealer, careful watch of inventories, and the fact that the date of packing was placed on the package fully protected consumers against stale coffee. As a result of this cheaper packaging, it was claimed that the same quality was being sold at lower prices than formerly. The implication was that others who sold their coffee in vacuum-packed cans were not giving as good a value because of the additional packaging costs assumed. In this instance, cost reduction was used as a promotional weapon through its reflection in price decrease.

There are other possibilities of cost reduction in production and transportation. New packages may pack more easily and with reduced space wastage in large shipping cartons. The space needed to carry inventories may be less with the new packages. A change may be made to take advantage of new packaging machinery by which filling costs can be reduced. If the new packaging materials are lighter and less bulky, transportation costs may be reduced. If a company is selling on a delivered basis by allowing freight on shipments over a minimum size, this saving may be substantial. Again the paper milk container in contrast to the bottle furnishes a good example. "The filled fiber container weighs only 40 per cent as much per quart as filled bottles, and occupies one-half as much space. Ice requirements for refrigerating the paper containers are only 10 per cent of those for glass. Whether these savings offset the cost of the paper containers is a neat problem. . . ."[10]

In the food and drug industries, large concerns continually conduct research, the primary purpose of which is to reduce packaging costs. Any changes in materials or processes which will have a favorable effect on costs without reducing the quality of the product may result in a substantial increase in profits, for the unit saving is applied to such a large volume of output.[11] Furthermore, when technological ad-

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[10] *Business Week,* November 2, 1940, p. 32.

[11] "The function of package research may be most tangibly explained by a few specific examples of achievement. Take, for instance, a paper used for machine wrapping of chocolate. The company was once using a sheet costing 12 cents a pound that was absolutely unsuitable for machine handling and did not give good protection to the product. Laboratory findings revealed a paper at 9 cents a pound with better protection and satisfactory machine handling properties. In another case, the laboratory discovered by careful performance tests a fibre-bodied canister for cocoa that gave as good protection as a former container at a saving of $5.20 per thousand. When millions of packages are produced annually, it is easy to comprehend the value of such package research" (Lucius W. Elder, Jr., "General Foods Inside Story," *Modern Packaging,* Vol. XX, No. 7 [March, 1947], p. 119).

vance is as rapid as at present, the likelihood of favorable developments from the cost angle is great. Therefore a continual awareness of changes is needed.

Compliance with Legislation. Another objective in repackaging is to satisfy governmental demands as expressed in legislation. The Food, Drug, and Cosmetic Act enacted in 1938 made many demands upon manufacturers in regard to packaging and labeling and necessitated numerous package changes. Certain of its provisions are designed to protect public health while others are designed to give the consumer a truer impression of the product under consideration at time of purchase. It is forbidden to pack any food, drug, or cosmetic under unsanitary conditions such that the product is contaminated. Similarly, the container may not be made of any substance which will render the contents injurious to health. Metallic trinkets and other inedible substances may not be packed with confectionaries. No substance may be added to a food or mixed or packed therewith which will increase the bulk or weight and thus, when packaged, make it appear that greater quantities are being purchased than actually are. The provision which is in all probability most difficult for the manufacturer to interpret is the one which outlaws any food, drug, or cosmetic container which is *so made, formed, or filled as to be misleading*. Furthermore, for food containers a minimum percentage of fill may be prescribed by the Food and Drug Administration (F.D.A.).

There can be no legitimate quarrel with the objectives which have prompted these provision of the act. Reputable manufacturers do not use false bottoms in containers or deceptively large outer containers in relation to those within which actually hold the product. Nor do they strive to mislead the consumer by leaving a package partially empty. When there is no regulatory legislation, however, a manufacturer may be tempted—even forced—to use such practices in order to compete with less reputable concerns which do. When all are restrained, the situation is a much healthier one. The actions of a few manufacturers who are not loath to adopt questionable practices are not allowed to jeopardize the position of their more reputable competitors, or of consumers.

Despite the fact that the majority of manufacturers agreed in principle with the packaging provisions of the Act, still many complications have arisen in their attempts to comply. No basis for judgment has given manufacturers more difficulty than the question of slack fill. For instance, the F.D.A., soon after the Act went into force, seized shipments of many nationally advertised brands of toothpaste and charged that the cartons were deceptively large, inasmuch as the product itself in each instance occupied only from 20 to 30 per cent of the inside space of the carton. Manufacturers were forced to de-

velop new cartons which were smaller but still held the same-sized tube. In order to eliminate as much air space as possible, F.D.A. likewise insisted that the tubes be placed diagonally in the cartons. Odd-shaped bottles have likewise been the subject of F.D.A. judgments, as they necessitate larger outside containers than smooth bottles or tubes and thus may deceive consumers as to the amount of product actually inclosed. Standards of fill have been formulated for peas, tomatoes, apricots, peaches, pears, cherries, and canned shrimp. "It is generally considered that, in order to avoid a charge of slack fill, a can must be filled to not less than 90% of its total capacity, although this fill has official standing at present in only one product, that for canned tomatoes."[12] For other products this percentage of fill would be difficult to attain, particularly when outside containers are needed.

The Notices of Judgment issued by the F.D.A. under the heading of "Drugs in Deceptive Containers" have been numerous.[13] Containers have been found with false compartments not intended for use; glass bottles have been deeply paneled on the sides and indented at the bottom; covers have been unduly raised, thereby increasing the size of the outside container; and containers have been deceptively packed through pyramiding of the contents downward. Each of these practices has been the basis for Notices of Judgment. In each instance, according to the F.D.A., buyers have been misled as to the actual quantity of product in the package. While in many cases there may be no intention to deceive the buyer, still intention to deceive is not essential to a finding on the part of the F.D.A. that a package is, in fact, deceptive. In cases involving these practices, manufacturers have contended that a statement of the correct net weight or measure of the contents on the label would protect the user and also that a statement of the number of portions of a product included when such designation of contents was customary in the trade would do likewise. In neither case was such a statement considered by the F.D.A. as a proper defense if the package itself was deceptively constructed or packed.

Manufacturers can be guided in their packaging activities by the Notices of Judgment which are now sufficiently numerous and comprehensive to provide the information necessary for work on package designs. While there are still cases in which the manufacturer may have some doubt as to whether his packages comply with the Act, a

[12] *Label Weights for Canned Foods* (Washington: National Canners Association, 1941, revised), p. 4.

[13] The Act, sec. 705 (*a*) requires that the "Secretary shall cause to be published from time to time, reports summarizing all judgments, decrees, and court orders rendered under the Act including nature of charge and disposition thereof." In fulfilment of this requirement, the Federal Security Agency, F.D.A., issues Notices of Judgment under the Federal Food, Drug, and Cosmetic Act.

preliminary opinion can frequently be secured by request to the F.D.A.

Initial Step in Repackaging

While some particular objective may be uppermost in the minds of executives when repackaging is decided upon, a thorough review of the features of the old packages is likely as a preliminary step. This frequently calls for a survey to discover consumers' attitude toward the packages in use. It is not safe to assume that they have no objections to the company's packages even though they continue to purchase. A combination of a really superior product and an inferior container is not uncommon. In a sense, the consumer purchases under protest and is thus particularly vulnerable to the promotional efforts of competitors and the suggestions of retailers directed toward brand substitution. The difficulty recognized by the consumer may at times be easily overcome in a new package. For instance, a bottle used for French salad dressing had such a narrow base that it was unstable, particularly when placed on the wire shelves of a refrigerator, where it frequently overturned, and then, if the top was not screwed on tightly, the contents of the bottle leaked out. Seemingly a manufacturer would easily recognize such deficiencies in his packages. However, it is difficult, through a purely deductive approach, to determine the attitude of consumers toward a package. It is much safer to conduct a consumer survey to determine present attitude toward your packages and those of your competitors.

Consumers can give the manufacturer significant information on questions such as the following: Is the range of sizes sufficiently wide in view of the varying conditions of use, the habits of users, and the range of purchasing power? Does the shape of the container afford reasonable access to the contents? Does the package have the needed degree of stability in view of the customary manner of storage? Is the package of acceptable shape for storage in refrigerators or on shelves? Is the package easy to open and close? Is the device used for emptying the package one which will avoid spilling and wastage? Is the closure effective in maintaining quality when the product is customarily used over a period of time and stored in the original container? Does the package reach the consumer in good condition? Does the package protect the contents so that quality does not vary substantially between the times of manufacture and of use? The answers to questions of this type provide a partial basis for redesigning packages. They do not provide the entire basis, for other considerations of dissimilar character likewise play an important role. Consumer desires should be known and catered to, in so far as practicable, but diversity in

packages is restricted by production and marketing costs. Deciding upon a package is frequently a matter for compromise between considerations of consumer acceptability and cost.

Questions of Organization and Procedure

In view of the nature of the problems presented, the actual work of developing a new line of packages is likely to be carried on jointly by company personnel and outside organizations or individuals. To a very considerable extent this work is a job for specialists. It is becoming more usual for concerns to engage the services of professional designers who may engage specialists in the use of color or other features of design. Material producers, such as the paper and glass companies, have much to contribute and often co-operate actively. They may have specialists in moisture control or other technical aspects of packaging. Producers of packaging machinery must often be consulted, as well as producers of adhesives and coatings. Each has a separate function to perform to which his specialized knowledge can be applied. Packaging must therefore be a co-operative effort with many parties involved.

Company Organization. Packaging involves joint effort on the part of many departments and individuals within a concern. The sales, research, advertising, production, and purchasing departments all have a legitimate interest both in initial packaging and in package changes. Furthermore, each has something of significance to contribute when decisions are being made.[14] A manufacturer of ethical drug products felt this so strongly that 10 departments were represented on the packaging committee.[15] Moreover, many departments want to be included from the standpoint of self-protection. Otherwise, they would have responsibility without the needed authority. For instance, a package might be wholly acceptable to marketing executives but appear quite impracticable to those responsible for the control of cost, packing, or shipping. Only by having all interested parties represented are the necessary compromises likely to be made. Through such a procedure the most acceptable packages, *all things considered*, may emerge from the packaging effort.

In a situation such as this a committee form of organization is likely to evolve. Sometime ago the American Management Association conducted a survey to determine present practices and possible trends in the organization and operations of package-development depart-

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[14] See American Management Association, *Organizing for Package Development*, Packaging Series, No. 8, (1944), pp. 8–9, and *The Package as a Selling Tool*, Packaging Series, No. 19 (1946), pp. 15–16.

[15] "Family Design for an Ethical Line," *Modern Packaging*, Vol. XIX, No. 3 (November, 1945) p. 101.

ments.[16] Of the 30 companies which furnished information, 16 stated that package-development departments were already included in their organizations. Eleven other companies reported that they had packaging committees. Five companies had both, the packaging committee serving in an advisory capacity. Responses indicated that in the organizational structure the package-development department should be placed directly under an executive vice-president or the general manager rather than under sales or production departments. As a second choice the research and product-development departments were suggested. The packaging committee was usually composed of a chairman, a packaging technician, a major executive, and one representative each from the departments chiefly concerned.

A packaging department or committee should be so placed as to have a reasonable measure of independence of operating departments. In the past the sales department has frequently been given too much authority in relation to package changes. It has not been uncommon, however, for production departments to resist package changes which were long overdue. Neither should be allowed to dominate packaging work, for under such conditions the necessary compromises are not likely to be made. Much can be done by a highly competent package department head or committee chairman, if he has been trained to recognize and appreciate the points of view expressed by operating department representatives. Training and experience in both production and sales are needed in such a position.

While the rules needed for the guidance of a packaging committee may vary under different circumstances as to a company's size or product, the following rules suggested by Baum seem to have general significance. If followed in all their implications, they should make the work of a committee at least reasonably successful:

1. The committee shall organize its requirements before selecting the designer. Whenever possible I think the committee should prepare a report incorporating all its merchandising requirements and technical information. This would serve as a valuable check-back during the development and insure the incorporation of all the required points.
2. The committee shall determine in advance the cost, approximately at least, of the package development, including designer's fees. This sum should be adapted equitably to the whole cost structure.
3. The committee shall select a qualified designer . . . one who is an intelligent graphic artist, well informed on general production techniques, and able to grasp and apply quickly the requirements placed before him.
4. The committee shall provide a system of checks and controls to insure complete fulfillment, in the finished package, of all requirements.

[16] Henry J. Howlett, "Survey of Current Operating Practices in Package Development," *Modern Packaging*, Vol. XVII, No. 7 (March, 1944) p. 134.

5. The committee shall meet at least once each year to make a survey of all the company's packaged merchandise and prepare a redesign schedule. Too often this important phase of package development activity is left to chance suggestion.[17]

These rules suggest, above all else, that the whole question of packaging should not be handled in a haphazard manner. In a highly competitive situation, there is too much at stake to allow packages to become outmoded and obsolete. Just as a line of products needs review to provide for new additions and withdrawals, so does a line of packages need review. Thus it should be the responsibility of some individual or group to make periodic surveys and determine whether changes are needed. Committee work on packaging should be of a continuing character, for, in a field which changes so rapidly, vigilance is required if a company's packages are to stay in the forefront of consumer acceptance.

Contribution of Other Concerns or Individuals. Several outside groups or individuals have much to contribute to a packaging effort. Material producers often have service organizations with elaborate facilities which may be placed at the disposal of concerns with problems in the field of packaging. Aid of organizations of this character should prove invaluable, whether or not the services of a designer are engaged. Obviously, no individual company in another field is likely to have as much experience or be in such close contact with new ideas about materials. There are so many technical problems involved that the services of specialists are needed. For instance, a question might arise as to what material would most fully protect a product against heat, moisture, solvents, or sunlight. Leading material producers with a knowledge of the properties of the product being packaged can make helpful suggestions. Furthermore, they are likely to have the equipment necessary for testing materials. Some bias because of greater interest in certain packaging materials than in others, in plastic or glass, for instance, rather than in transparent film or waxed papers, might be present, but this could be counteracted by discussions with producers of various materials.

The task of the professional designer in reference to packaging is usually of a dual character. He serves in his capacity as a creative designer but also performs a co-ordinating and liaison function among the other parties involved. In designing as such, his task is to translate the often nebulous and half-formed package ideas of his client into reality. This is essentially a creative function requiring considerable ability and imagination. Management may know that a package is ineffective and why, but to determine just what package characteristics

[17] Roland L. Baum, "A Working Plan for Package Development," *Engineering Aspects of Product Development*, Marketing Series, No. 32 (New York: American Management Association, 1938), p. 20.

will be more acceptable is the work of a specialist. Questions of design bewilder the layman. Matters of unity and balance, proper massing, accents, and contrast must all be taken into consideration. Color is a highly technical subject, and acceptable selections, particularly of combinations, can be made only by an expert. Problems such as the effect of shape on the consumers' estimate of the amount inclosed, the desirability of certain color combinations, and the relative effectiveness of pictures as against abstract patterns or other forms are ones to which the professional designer brings much training and experience.

In order for the designer to work successfully, he must be furnished with much information by his client. He must get a "feel" of the situation in which he is working. In one instance, a designer spent the first two weeks of his employment in the factory of his client to become thoroughly acquainted with the product, production technique, and available packaging equipment before proceeding with preliminary work on designs. He must get a company's merchandising objectives well in mind. He must know the difficulties which he is expected to overcome. As noted previously, these may be concerned with inadequacy of the package from the consumer angle; lack of display in retail outlets; lack of the desired family resemblance; unduly high costs of material, filling, or labeling; or the failure of a package to meet requirements imposed by legislation. The designer's effectiveness depends largely on whether he is initially brought up to date on a company's problems and objectives. If the objectives are reasonably clear, a design to meet them may be found rather quickly.

The designer also has a co-ordinating and liaison function to perform. Different departments may have evolved tentative solutions to a packaging problem. These must be evaluated and, if possible, reconciled. In a sense, he may become the arbiter between contending factions. This is not a particularly agreeable function to perform, but it is necessary and often can be performed more acceptably by an outsider than by a company executive. A well qualified designer will possess a working knowledge of materials, packaging machinery and its operation, lithography, and the manufacture of cartons, bottles, and other containers. This does not imply that he should be an expert in any one of these lines, but he should be able to act as an effective liaison agent with concerns engaged in these activities. On questions of filling processes and costs, he will work with the equipment manufacturers. If he needs information on the practicability of a certain shape of bottle and its cost, he will turn to the bottle manufacturer. His task is to utilize the special services offered by others in so far as they will contribute to the desired result. Better co-ordination may thus be attained.

Summary. Packaging for many concerns is a continuing activity and one which therefore calls for some permanent organizational structure. The cost of packaging is sufficiently great to merit continued study. Furthermore, a package which is not acceptable to consumers can easily jeopardize a company's position in the market. Continued research in packaging is justified by the presence of this risk factor. The establishment of a packaging department or a packaging committee, if it is given the required responsibility and authority, will give some assurance to management that the problem will not be neglected or handled in a haphazard manner.

The organizational structure must secure the proper measure of co-operation among numerous interested parties and co-ordination of their activities. Packaging is a company problem rather than one which concerns only one department. Most departments of a business concern are affected by decisions on packaging and have something of importance to contribute in the making of decisions. Packaging is also a task in which outside specialists must be used, particularly the professional designer and the materials producer. In packaging there is always some conflict between utilitarian and promotional objectives. The sales and advertising departments are primarily interested in promotion, whereas other departments are more interested in costs. Thus there is always the need for negotiation to effect the necessary compromises. These can be made intelligently only if all parties concerned have the opportunity to express their views and thereby apply their specialized training and experience to the solution of packaging problems.

REVIEW AND DISCUSSION QUESTIONS

1. Why is complete repackaging of a manufacturer's line, particularly in the food, drug, and cosmetic industries, a highly complex undertaking?
2. Contrast the objectives which producers might reasonably expect to attain in the packaging of beer in cans, motor oil in cans, milk in plastic containers, cheesecloth in cartons, oranges in mesh sacks, fruit in Duraglas jars, breakfast rolls and link sausages in cellophane, and dill pickles in a pliable plastic material such as Pliofilm.
3. Which of the basic objectives for repackaging a line is likely to be of greatest permanent advantage to a company?
4. Why do manufacturers often hesitate to redesign a line of packages even though the packages in use are obsolete? Is there a sound basis for such hesitancy in the history of package changes?
5. What responsibilities must a manufacturer assume in regard to the packaging of his products in order to comply with the provisions of the Food, Drug, and Cosmetic Act?
6. Consider the relative desirability of maintaining individual package

designs for each product in a line of cereals, as contrasted with a similarity of design which prominently indicates their common source and family relationship.

7. Is there a basic conflict between the promotional and protectional aspects of packaging? Is this conflict likely to be resolved in favor of promotion or in favor of protection?

8. Outline a program of research activities which might profitably be carried forward as a first step in the repackaging of a line of food products or pharmaceuticals.

9. On the basis of certain assumptions as to product type, size of company, etc., suggest an organizational plan for handling packaging problems within an individual business enterprise.

10. Mead Johnson & Company, the manufacturer of Pablum, a precooked, mixed cereal for infants and small children, recently changed its package from a cylindrical shape with a height of 8 inches and a diameter of approximately 5 inches to a rectangular package with the following dimensions: 8 × 6 × 3 inches. The old package contained 1 pound 2 ounces, and the new package 1 pound, net weight. In order to induce recognition of the new package, a small picture of the old package was placed on the front of the new package prominently indicated by red arrows and the inscription: "This New Package Contains the *Original Pablum* Formerly Sold in Package Illustrated."

    What factors probably motivated the change in package design?

11. Review the discussion on pages 138–39 in reference to the prepackaging of fresh meats. It has recently been estimated that there are now (January, 1951) approximately 2,000 self-service meat stores or departments and that they do 5.9 per cent of the retail meat business. The number has more than doubled each year since 1945. The greatest increase has been in the stores of the large chain-store companies. To a considerable extent the packaging is done by the retail stores rather than by the packing companies, although the number of items packaged by them has increased substantially.

    Consider these changes from the point of view of the packing companies, particularly in reference to their product identification problem (See Sam Teitelman, "Self-Service Meat Retailing in 1950," *Journal of Marketing*, Vol. XV, No. 3 [January, 1951], pp. 307–18.).

12. A pharmaceutical manufacturer produced over 200 medicinal, household drug, and cosmetic products. These products were sold throughout the United States and Canada under the brand name "Peerless" in competition with such brands as Rexall and Nyal. The company followed a policy of distributing its products through drug stores under an exclusive agency agreement. In towns of less than 25,000 population, only one dealer was permitted to carry Peerless products. To secure sales volume, the company depended largely upon point-of-purchase promotion, co-operation with dealers, substantial dealer margins, and low prices to consumers.

    The company packaged all of its products in plain, uniform gray

packages with blue lettering. The packages had few, if any, ornamental features. It was thought that Peerless products could be identified easily through this uniform color and design and that there would be a carryover of recognition and good will from one item to another. It was also not difficult to introduce new packages into the line. While the packages used for some products had, to a limited extent, been individualized, they retained a large measure of similarity.

In 1947 the company's merchandise manager desired to individualize the packages for many products. He argued that the similarity of packages made it very difficult to set up attractive displays on which the company largely depended for promotion, that similar packages caused the dealer to think that he was overstocked, and the consumer to think that the merchandise moved slowly and might be "old stock." He also contended that the brand name "Peerless" on all packages should be sufficient to indicate their common origin and high quality, and that more frequent and pronounced changes in packages would be of promotional value.

Should the proposal of the merchandising manager have been adopted?

SUPPLEMENTARY READINGS

AMERICAN MANAGEMENT ASSOCIATION. Packaging Series, particularly No. 24, *Planning Package Development* (1947); No. 27, *Consumer Packaging—Its Technique and Psychology* (1948); No. 32, *Increasing Package Effectiveness at the Retail Level* (1950); No. 33, *How General Electric Tackles Its Packaging, Packing and Shipping Problems* (1950).

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FREY, ALBERT WESLEY. *Manufacturers' Product, Package, and Price Policies,* chaps. xi and xii. New York: Ronald Press Co., 1940.

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HOWLETT, HENRY J. "Survey of Current Operating Practices in Package Development," *Modern Packaging,* Vol. XVII, No. 7 (March, 1944), p. 134.

NASH, BEN. *Developing Marketable Products and Their Packages.* New York and London: McGraw-Hill Book Co., Inc., 1945.

OWENS-ILLINOIS GLASS COMPANY. *The Duraglas Center.* Toledo, 1948.

Chapter VI

LABELS AND LABELING

A LABEL is an integral part of a package. It has the task of identifying the producer and of promoting a product's sale at time of purchase. By strict definition, the word "label" is not entirely satisfactory for the purpose of this chapter. A label has been defined as a slip of paper, metal, or other substance, affixed to anything and indicating its contents, ownership, source, or destination. But frequently such information is placed on the material of the container itself rather than on a separate sheet of material which is later attached. Or information may be given on what is known as an "insert," i.e., a printed leaflet or folder placed within the package. At times such a leaflet is bound to the package in some manner. The essential fact is that the information accompanies the product.

The Food, Drug, and Cosmetic Act of 1938 draws a distinction between the terms "label" and "labeling." A "label" is defined as "a display of written, printed, or graphic matter upon the immediate container of any article" or upon the outside container or wrapper, if needed there to attain full visibility.[1] "Labeling," in contrast, includes labels, but also extends to "other written, printed, or graphic matter (1) upon any article or any of its containers or wrappers or (2) accompanying such article.[2] According to these definitions "labeling" is much the broader term, as it includes all that may accompany a product for the purpose of indicating its source, nature, ownership, or manner of use. Presumably, the information on a *label* as such is accessible to the potential buyer prior to actual purchase, whereas other material included under *labeling* may or may not be so accessible. But this distinction between the two is not commonly recognized, although it may be a very useful one. Product inserts, for instance, would not be comprehended within the term "labeling" as considered by many writers on the subject.

Many items of diverse character are placed on labels. The producer's name or perhaps a distributor's name, a brand, or a trade-mark

[1] *Federal Food, Drug, and Cosmetic Act and General Regulations for Its Enforcement* (Service and Regulatory Announcements, No. 1 [February 15, 1946]) (U.S. Department of Agriculture, Food and Drug Administration, Washington, D.C.: U.S. Government Printing Office, p. 4.

[2] *Ibid.*

serves to identify the source of supply and to indicate quality. Pictures or color patterns are likely to be present—often pictures of the merchandise within the package. There is also printed material of an informative sort on the label, which serves to instruct the purchaser in regard to the materials from which the contents are made, the product's uses, the manner in which it should be used or cared for, or its amount in weight or volume terms.

RECENT EMPHASIS ON LABELING

Few marketing problems have received more attention in recent years than that of informative labeling of consumer goods, and it is likely that there will be many changes in labels to make them conform to the requirements of legislation and the informal demands of consumer groups. Both legislation and consumer interest are in response to a growing realization that the multitudinous variety of consumer goods is not being appraised successfully by the great majority of consumers, and to a feeling that business concerns have not taken sufficient responsibility for providing information which would enable the consumer to make intelligent choices. Of course, there is a difference of opinion on the latter point, but there can be little doubt of the inability of the consumer correctly to evaluate the many offered units of most commodities. Values are, of necessity, hidden in many commodities, and their ready determination, even by experts, might not be possible.

In view of the wide range of products offered for purchase, the very considerable number of different brands of a given product, the complexities of products, and the none too effective means provided for aid in making a choice, it is surprising that consumers make as reasonable choices as they apparently do. The problem has been accentuated by greater product differentiation and by packaging which makes observation and direct comparison when purchasing more difficult. Under such conditions, the desire for more information on labels or by other means was to be expected.

Various groups have actively interested themselves in the problems of labeling and of standards for consumer goods. Some of these are governmental; others are private organizations. One of the first steps taken by the latter was the creation of the Advisory Committee on Ultimate Consumer Goods of the American Standards Association. Later the National Retail Dry Goods Association started a program on consumer relations. From these beginnings the National Consumer-Retailer Council, Incorporated, was formed as a clearinghouse, a research and publicity organization for a number of groups.[3]

[3] Representing the consumer are the American Home Economic Association, the American Association of University Women, and the General Federation of Women's Clubs. The retailer groups affiliated are the National Retail Dry Goods Association,

Some of the purposes of this central organization as outlined in its by-laws are as follows: (1) to stimulate interest on the part of consumers, distributors, and manufacturers in the value and use of adequate standards for consumer goods; (2) to promote the general use of informative labeling; (3) to promote the use of uniform terminology in describing consumer goods and services; (4) to promote informative salesmanship; and (5) to promote the use of truthful and factual information in advertising. Each of the affiliated groups has done much to encourage informative labeling. Representatives of department stores, chain stores, and independent retailers are active in the movement. Thus the desires of a manufacturer's own customers may force him to change his labels so that more information is given.

Since 1926 the Department of Agriculture, through the Bureau of Agricultural Economics and, more recently, the Agricultural Marketing Administration, has worked on the development of standards for canned fruits and vegetables and the promotion of grade labels. Legislation in the latter part of the 1930–40 decade accounts for much of the recent emphasis on labeling. The Food, Drug, and Cosmetic Act was passed in June, 1938. Its labeling provisions made much additional information available to the consumer. The passage of the Wool Products Labeling Act of 1939 forced manufacturers of textiles to state on labels whether the wool used is reclaimed, reused, or virgin wool, and in what proportions.[4] These labels must accompany the textiles until they are sold to final consumers, whether as yard goods or in garments.

"INFORMATIVE" LABELING

There has been so much talk about "informative" labeling that it may be well to pause and consider the term before proceeding further. First, it should be recognized that all labels are informative, even if nothing but the name of the maker is given. On the other hand, a wide variety of information about a product may be placed upon a label. It is simply a matter of degree. When governmental and consumer organizations have written and spoken about informative labeling, they have consistently implied that the manufacturer has failed to give sufficient information about his products on labels. Informative labeling to them means *more* informative labeling, *more* dependence upon grades, description, and information in regard to use, and *less* dependence upon brand and/or company name. The

American Retail Federation, National Association of Food Chains, National Shoe Retailer's Association, and the National Better Business Bureau, Incorporated.

[4] See Public Law 850: An Act To Protect Producers, Manufacturers, Distributors, and Consumers from the Unrevealed Presence of Substitutes and Mixtures in Spun, Woven, Knitted, Felted or Otherwise Manufactured Wool Products, and for Other Purposes (S. 162), *U.S. Statutes 1940* (76th Cong., 3d sess.) (Washington: Superintendent of Documents, 1940), chap. 871.

term, as generally used, connotes labels which give substantially more information than manufacturers are in the habit of giving or presumably would give if left to their own devices.

Under the general term "informative labeling," we might distinguish various subclasses, such as brand labeling, illustration labeling, specification labeling, descriptive labeling, and grade labeling. These are not likely to be used alone. Usually they appear in combination. But one is likely to be dominant as an indication of the quality of merchandise. Descriptive and grade labeling need a further comment. There seems to be a disposition on the part of certain groups to think of informative and descriptive labeling as being synonymous and something apart from grade labeling. As a matter of fact, there is nothing more informative than a grade based upon definite standards of which there is general knowledge. When the factors which give value in a commodity have been definitely determined and can be measured accurately, then standards can be established and grade symbols assigned. For instance, the grade "Number Two Hard Red Winter" for wheat means that the wheat in question is one of the five basic classes—that is, hard red winter—and that it is subclass No. 2, inasmuch as the wheat conforms to certain requirements in regard to weight per bushel, moisture content, damaged kernels, foreign matter, and the presence of other classes in the mixture. By virtue of these grade designations, quality is largely established for the potential buyer, and in the majority of instances inspection prior to purchase has been made unnecessary.

In a very real sense, grade labeling is the acme of labeling effort, and is, of necessity, highly informative. Therefore it is unfortunate that the term "informative labeling" has so frequently been used as the antithesis of grade labeling. Clearly, the preferable term for the former to distinguish it from the latter is "descriptive labeling." Widespread use of grade labeling for any commodity will always await (1) the establishment of standards, (2) the establishment of a system of grade designations, and (3) the education of buyers and sellers to appreciate the usefulness of standards and the value of grades for purposes of exchange. Thus descriptive labeling may be the forerunner of grade labeling, or, perhaps, its less effective substitute if a product does not lend itself to standardization.

MANUFACTURERS' ATTITUDE TOWARD INFORMATIVE LABELING

In view of the recent emphasis on labeling, many manufacturers are being forced to take some action. At times action is required by legislation. But, frequently, pressure is applied by consumer and retailer groups, and the manufacturer has either to change his label or

to defend his position in relation to old labels. Some manufacturers are actively opposing informative labeling, but this seems to be short-sighted policy. A much better policy is suggested by this statement of a textile manufacturer: "The consumer movement has settled informative labeling for us. We are going to have it whether we like it or not, and I do not see how any progressive manufacturer, proud of his product, could wish otherwise. The real problem in informative labeling is not whether or not it is a good thing, but how to guide it along practical lines."[5] There is wisdom in this attitude. When the handwriting on the wall becomes reasonably clear, the situation requires adaptation to a new set of conditions rather than blind opposition to change.

This general position is strengthened by a number of other considerations. The sponsorship of the informative labeling movement is excellent. It consists of articulate and reasonably well-informed consumer groups, and they control a vast purchasing power. Furthermore, the manufacturers' immediate customers—retailers and wholesalers—are interested. The former are a part of the National Consumer-Retailer Council, Incorporated, and the latter, although not so definitely a part of the movement, do not appear to be in opposition. Many governmental groups—national, state, and municipal—are actively at work on the problem, and they will not be satisfied until more information is available to the consumer at the time of purchase.

But of greater importance is the fact that the giving of information which will help the consumer purchase more wisely is in line with basic economic objectives. Presumably, at least, the purpose of economic activity is to satisfy human wants, and only through effective utilization of his purchasing power can the consumer maximize his satisfactions. By means of his choices, the consumer determines what shall be produced—that is, he directs production. Thus, if informative labeling helps the consumer to be more effective in purchasing, then it is a movement in the right direction, and the intelligent manufacturer will not assume an antagonistic attitude. Otherwise, he will receive the onus attached to opposition to a movement which, although perhaps ill-advised at times, still has important economic and social objectives. Through co-operation, there is hope that the movement may be steered in the right direction.

MANUFACTURERS' LABELING PROBLEMS

Manufacturers' labeling problems arise under three conditions which differ markedly as to the independence in decision and action

[5] F. S. Blanchard, "Informative Labeling from the Manufacturers' Point of View," *Problems under Informative Labeling*, (Marketing Series, No. 34) (New York: American Management Association, 1939), p. 3.

which may be exercised. In the first place, action is mandatory under certain laws, and therefore the question is how best to conform in order to protect one's own interests. Second, certain government departments and organized consumer-retailer groups have made suggestions in regard to labeling. Conformance with these suggestions is entirely optional. Third, the weight of unorganized opinion as it appears in purchasing behavior may suggest that action should be taken to modify existing labels. But whatever the condition under which problems arise, there are certain basic problems which are likely to be present in greater or lesser degree, and these will now be considered.

Problem of Product Evaluation

As a preliminary step to a decision regarding the informative content of labels, there must be product evaluation to determine the factors which give value. These must be known in order to have bases for judgment as to quality. For canned peas, the Department of Agriculture has said that the important factors are clearness of liquid, absence of defects, uniformity of size and color, tenderness and maturity, and flavor.[6] After the factors have been isolated, the question arises as to how important each is in relation to the over-all quality of the product. The problem involved is complicated by the fact that the factors are interrelated. Flavor, for instance, is in part determined by the degree of tenderness and maturity. In the case of peas, the relative importance attached to each factor was as follows: clearness of liquid, 15 points; absence of defects, 15 points; uniformity of size and color, 10 points; tenderness and maturity, 35 points; and flavor, 25 points. Another problem is that of measurement. Is it possible to determine with any degree of assurance—in the case of peas, for instance—whether a given batch of product should be given 20 points or 25 points on the basis of its flavor content? It is a question whether the factors lend themselves to quantitative measurement. Surely, precise measurement of such characteristics as flavor, color, and aroma is not possible. Other characteristics, such as degree of hardness, size, and absence from defects, are quantitatively measurable. When, as in this case, some of the factors which may be used to judge quality are measurable and some are not, and when there is doubt as to whether the relative importance of each can be accurately determined, then assignment of grades must be in question. But whether grades are established or reliance is placed on descriptive terms to denote product quality, still the first step is to obtain a thor-

[6] See *United States Standards for Grades of Canned Peas* (Service and Regulatory Announcements, No. 140) (Washington, D.C.: U.S. Department of Agriculture, Bureau of Agricultural Economics).

ough knowledge of the characteristics of a product which are important to consumers.

Problem of Selection—Information for Labels

The question of what information to give on labels is, as we have noted previously, partly answered for the manufacturer by legislation. Giving other information is simply a question of voluntary action, which may or may not be prompted by advice from outside organizations. Compliance with legislation will first be considered.

Compliance with Legislation. Although a manufacturer may wish to comply with legal requirements on labeling, he may experience difficulties in doing so. Many provisions are subject to differing interpretations. In time the meaning of legislation is clarified through action taken by administrative agencies; but, immediately subsequent to a law's enactment, there is bound to be an interlude of confusion and disturbance among both administrators and those whose activities are subject to regulation. For some time after the passage of the Food, Drug, and Cosmetic Act, there were too few administrative decisions to be of much help to manufacturers. While decisions under the Food and Drug Act of 1906, together with its various amendments, covered many points and were thus helpful by way of guidance, still the new Act made additional requirements and applied to many products which previously were not subject to regulation. Cosmetics were brought under the law for the first time. The word "drugs" was defined more broadly than in the old Act and included articles used in the diagnosis of disease and products whose purpose was to affect the structure or function of the body, such as weight-reducers. Therapeutic devices and genuine antiseptics were subjected to many of the same rules as drugs. Manufacturers of these products, particularly the proprietary medicine producers, had to work many changes into their labels if they were to continue the sale of their products. Moreover, they had to do so without much help from administrative decisions. Now, however, with administrative decisions over a period of years, and court decisions on many cases when the rulings of the F.D.A. were challenged, manufacturers have a basis for guidance on labeling activities.

The labeling provisions of the Act make many demands upon manufacturers. Some of these are easily complied with, whereas others present difficult problems. The provision least difficult to meet is the one which states that a packaged food, drug, or cosmetic is mislabeled —or "misbranded" as it is called in the Act—if the label does not bear the name and place of business of the manufacturer, packer, or distributor, and an accurate statement of the quantity of contents in terms of weight, measure, or numerical count. Reasonable variations

in the quantity are permitted, and exemption from the statement of quantity on small packages may be granted at the discretion of the administrative authorities. A less specific provision requires that any word, statement, or other information required on the label "be prominently placed thereon with such conspicuousness (as compared with other things on the label) and in such terms as to render it *likely to be read* and *understood* by the ordinary individual under customary conditions of purchase and use."[7] Whether a label violates this provision is, of course, a matter of judgment. Still this provision is not difficult of interpretation, particularly in contrast with others of a more general nature.

The new Act uses the wording of the Act of 1906 in that a product is misbranded if its labeling is false or misleading in any particular, but additional provisions "put teeth" into the new Act. For instance, Section 201 (*n*) provides that "in determining whether labeling is misleading there shall be taken into account not only (among other things) representations made or suggested . . . but also the extent to which the labeling fails to reveal facts material in the light of such representations, or material with respect to consequences which may result from the use of the article to which the labeling relates, under conditions of use prescribed in labeling thereof or under such conditions of use as are customary or usual."[8] In short, labeling representations may be illegal because of *significant omissions* as well as because of unjustifiable claims.

Certain labeling requirements apply only to particular product classes—that is, either foods, drugs, or cosmetics. Those which apply only to foods are concerned primarily with information which will aid the consumer at the time of purchase. For instance, a food is misbranded if it is offered for sale under the name of another food or if it is an imitation of another food and is not labeled "imitation." The label must bear the standard of identity, i.e., the name, ascribed to it by the F.D.A., if such a standard of identity has been fixed. A product may not bear this name if it has less than the prescribed proportions of the standard ingredients. The administrative authorities are further empowered to list the optional ingredients which must appear on the label. If a definition and standard of identity has not been established, the label must bear the common or usual name of the food, if there be such, and the common or usual name of each ingredient, *except* that spices and flavorings may be so designated without naming each.

A label on food which falls below the prescribed standards of qual-

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[7] Public Law 717: An Act To Prohibit the Movement in Interstate Commerce of Adulterated and Misbranded Food, Drugs, Devices, and Cosmetics, and for Other Purposes (S. 5), *U.S. Statutes 1938* (75th Cong., 3d sess.) (Washington: Superintendent of Documents, 1939), chap. 675, sec. 403 (*f*) (italics added).

[8] *Ibid.*

ity must bear "in such manner and form as such regulations specify a statement that it falls below such standard,"[9] but it is not necessary to state the extent thereof. If a food purports to be for special dietary purposes, the label must bear such information as is prescribed by the F.D.A. The labels of foods other than butter, cheese, and ice cream must bear information in relation to artificial flavoring, artificial coloring, and chemical preservatives unless exemptions are secured from the F.D.A.

The labeling provisions with respect to drugs are largely of a type designed to protect public health. A label must bear adequate directions for the product's use and warnings against harmful use, such as unsafe dosage. The provisions concerning drugs noted before also cover therapeutic "devices," which are defined as instruments intended for use in cases of disease or attempts to affect the body structure or functions. If a homeopathic drug contains any of the listed habit-forming drugs, or any derivative thereof which has been designated by regulations as habit-forming, the label must declare the name, quantity, and percentage of such drug and must bear the statement in juxtaposition thereto "Warning—May be habit-forming." A drug recognized in an official drug compendium must bear the name which is there used. Such a drug must be packaged and labeled in accordance with the official standards. Any divergence in strength, quality, or purity from the official standard must be so specified on the label. Nonofficial drugs must list the names of the active ingredients and the proportions of certain specified substances or any derivative of such substances. Finally, if a packaged drug is subject to deterioration, the label must carry a statement to that effect.

Certain labeling provisions for cosmetics are of a type designed to protect public health. A coal-tar hair dye must conspicuously display a caution to the effect that the product contains ingredients which may cause skin irritations on certain individuals and that a preliminary test according to directions should first be made. Furthermore, the labeling must bear adequate directions for preliminary testing. It must also be stated that the product must not be used for dyeing the eyelashes or eyebrows, and that to do so may cause blindness. The provisions designed to insure the consumer full information at time of purchase are of particular importance, inasmuch as this is the first legislation of this type which includes cosmetics. Many claims formerly made for cosmetics may have to be modified if there is to be a strict interpretation of the clause which outlaws any product bearing a label that is false or misleading in any particular.

Notices of judgment under the Act in reference to labeling have had as their bases a multiplicity of practices which mislead the pur-

[9] *Ibid.*, sec. 403 (*b*) (1).

chaser in varying degree. Some of them are relatively unimportant, while others—for instance, in reference to the effect of overdosage for medicines—may be exceedingly important. Many judgments are based upon sheer misstatement or lack of truth in the information given on labels, others on withholding information of significance, such as the possibility of harmful use. Other judgments have dealt with the manner in which information is placed on labels, such as place, size of type, and other questions arising from the provision regarding conspicuousness. The types of false statement on labels for food products have been classified as those pertaining to identity, origin, condition, state, treatment, size, shape, style, quality strength, uses, purposes, nutritional value, and medicinal properties.[10] While these are related and undoubtedly overlap, nevertheless this enumeration indicates clearly, as do the provisions of the law itself, the great variety of conditions which may be the basis of action by the F.D.A. if, in its judgment, the practices of manufacturers do not comply with the Act.

Voluntary Action in Selection. Despite appearances to the contrary, manufacturers are given considerable latitude in arriving at decisions in regard to labeling. This is particularly true of products which are unlikely to be injurious to public health. Until the passage of the Wool Products Labeling Act of 1939, there was very little control of textile labeling, and the provisions of this Act are not particularly onerous. When legislation intervenes, the question of what information to give is partially settled, whereas the question of how to present the information still remains. In those instances in which there is independence in action, the manufacturer must determine what types of information to give, how much information to give, and, finally, how to give it so that it will be understandable to the potential buyer.

In selecting types of information it should be recognized that there is usually an immense gap between what the manufacturer knows about his product and what the consumer knows or perhaps can know. If manufacturers of a given product were asked to list those characteristics by which the quality of the product could be judged and if consumers were asked to enumerate the product characteristics for which they look when comparing products in purchase, the two lists would usually be substantially different. In textiles, for instance, there would be items on the manufacturers' list which would mean little, if anything, to the great majority of consumers. Consider the following quotation from the point of view of the knowledge which consumers are likely to possess: "In order to buy the best bath towel for her money, a consumer needs to know its length and width in

[10] Arthur D. Herrick, *Food Regulation and Compliance* (New York: Revere Publishing Co., 1944), p. 170.

inches; its colorfastness; the amount and rate of water absorption; number of filling and warp yarns, both ground and pile, to the inch; the breaking strength of the ground warp and the filling, and whether it was determined by the strip or grab method. In comparing various towels it is also helpful to know the weight—the number of ounces per square yard—and the number of square inches of terry in the entire towel."[11] It is doubtful whether some of this information if placed on towel labels would materially aid the consumer in purchasing. There might be more effective selection if the same information were given on labels of different towels under consideration, for comparison would then be possible. But so much information would be confusing, and, moreover, few consumers would know the difference between "filling and warp yarns, both ground and pile" or the difference between "the strip and grab method"; nor would they know the meaning of such words as "terry."

In a product such as sheets, a label might specify thread count, weight, tensile strength, yarn size, twist, length of staple, percentage of sizing, and shrinkage, in addition to instructions for washing and caring for the product. Some consumer groups would probably advise that all this information be given, whereas certain manufacturers would probably feel that such information on a label would divulge the entire construction of their products to competitors. Textile manufacturers would also claim that such a list of figures would be of no practical value to consumers. In fact, if such informative items were given for each of four different brands of sheets, a highly trained technician would probably take several hours of careful study to weigh one factor against another and thus determine the best quality or the best value among the four samples.

If such is the case, then the list of items should be reduced to avoid confusion and delay in purchasing. Perhaps thread count, weight, strength, and shrinkage do, or could be made to, mean something tangible to the consumer.[12] In relation to this question of selection, a department-store executive expressed himself as follows:

I think the label which has too much information, to the point where it becomes confusing or difficult to read, is not going to serve much purpose; that a label which is misleading or dishonest is much worse than no label at all; that a label which is too technical and too much over the

[11] U.S. Department of Agriculture, *Guides for Buying Sheets, Blankets, Bath Towels* (Farmers' Bull. No. 1765) (Washington: Superintendent of Documents, 1936), p. 27.

[12] A survey was made by the National Consumer-Retailer Council, Inc., among consumers, retailers, and manufacturers to determine what product characteristics should be stressed on labels for a number of products. For textiles the survey showed that there was a considerable agreement among all parties as to the importance of including fiber content, color permanence, and size. Detailed instructions for washing were also considered important.

heads of the present customer audience is not a desirable thing. The last point does not mean, however, that the information must be written down to the level of the least intelligent. If the public is ever going to be educated about merchandise, we retailers and manufacturers will have to provide the education.[13]

There is wisdom in these comments, for they suggest that labels should be prepared from the consumers' point of view and, furthermore, that informative labeling is an educational process in which gradual changes are to be preferred.

Considerable aid in the selection of informative material for labels has been given by the Department of Agriculture through the Bureau of Agricultural Economics and by the National Consumer-Retailer Council, Incorporated. The latter organization has prepared a Master Label Outline. It is as follows:[14]

OUTLINE FOR INFORMATIVE LABELS

It is understood, of course, that labels should conform to local, State or Federal regulations where such exist.

What It Will Do (Performance)
Degree of color permanence; shrinkage or stretchage; breaking strength; seam slippage; resistance to water, perspiration, wind, wear; light, heat and power tests; power consumption; cost of upkeep; etc.

What It Is Made Of (Composition)
Kind and quality of fiber, metal, wood, leather, ceramics, cement, rock, fur, plastics, petroleum products, rubber, paper, bone, chemicals, drugs; ingredients of food products; etc.

How It Is Made (Construction)
Size, weight, number of yarns per inch, weave, number of stitches per inch, finish, ply, cut, hand or machine made, pressed, molded, stamped, inlaid; etc.

How To Care For It
Detailed instructions for washing and/or cleaning; precautions to be observed in cleaning or in storage; refrigeration; oiling and greasing; polishing; etc.

Recommended Uses
Purposes for which it is most suitable; recipes; etc.

Name of Manufacturer or Distributor
Name and address of the manufacturer or distributor.

This outline will serve as a convenient classification of information which may be given on labels. It should not be assumed, however, that information should, of necessity, be given for a product in each unit of the classification. Instead, the procedure is to use the outline as a

[13] Harold Brightman, *Informative Labeling from the Retailer's Point of View* (Marketing Series, No. 34) (New York: American Management Association, 1939), p. 15.

[14] Roger Wolcott, for Labeling Committee, *Informative Labeling* (New York: National Consumer-Retailer Council, Inc., 1941), p. 14.

check list and thus to determine whether each sort of information is or is not important for the labeling of a particular product.

The National Consumer-Retailer Council offers co-operation to manufacturers and distributors in their work on labeling of specific commodities. Label forms have been prepared for a number of canned goods, for textiles such as sheets and towels, and likewise for certain finished items of clothing. Other label forms are continuously in preparation. Each form shows the kind of information which, in the opinion of the members of the Council's Label Committee, is needed by consumers when purchasing. Informative labels for different qualities of the same good to reveal why one item is priced higher than another are definitely recommended by the Council.

In order to accelerate the extension of its program of informative labeling, the Council permits the use of the following statement on labels which conform to its approved outlines: "This is the type of label suggested by the National Consumer-Retailer Council, Inc."[15] Permission to use the above statement is contingent upon the approval of an expert committee, which has the power to enter into agreement for its use with any manufacturer or distributor who submits a satisfactory label and furnishes competent technical evidence based upon tests that the labels properly describe the goods to which they are attached. In addition to the services mentioned, the staff of the Council is available for consultation on questions of labeling. Furthermore, the giving of aid is not conditional upon assurance by the manufacturer or distributor that the Council's recommendations will be accepted. These services should prove invaluable to the manufacturer or distributor who wishes to change his labels and thereby give more information to consumers.

Problem of Presentation

After a decision has been reached on what information is to be included on a label, the next problem is to determine how to present it so that it will be meaningful to consumers. This is, perhaps, the most difficult problem of all, for it involves bridging the gap of consumer ignorance, either by effective word selection, or by the use of symbols as evidence of a combination of qualities in a product, or by a combination of the two. Here the choice is between grade and descriptive labeling.

Grade versus Descriptive Labeling. The problem of grade versus descriptive labeling is not entirely one of presentation. Presentation is, nevertheless, the end-result after product evaluation and selection of the information which is to appear on labels. Frequently the nature

[15] *Ibid.*, p. 23.

of the information determines the manner of its presentation. In many other cases, this is not true, and the different producers use either grades, description, or perhaps both. It was noted previously that accurate grading depends upon whether the factors which give value in a product can be isolated; whether these factors lend themselves to quantitative measurement; whether the relative importance of each can be determined; and, where the factors are interrelated, whether combinations can be rated effectively. Differences of opinion on these questions have recently appeared more frequently in relation to canned fruits and vegetables than elsewhere. Therefore a discussion of the situation in regard to these products may be helpful.

Since 1926 the Department of Agriculture, through the Bureau of Agriculture Economics and, more recently, the Production and Marketing Administration, has developed standards and promoted grade labels for canned fruits and vegetables. Some 85 standards have been established for processed fruits and vegetables and are now in use, although their use is not compulsory. In 1939 a continuous inspection service was inaugurated. A federal inspector of the Department of Agriculture is stationed continuously at the processing plant to inspect each batch of product while it is being prepared and canned. Although the packers operating under this service are not required to label any portion of their pack on the basis of United States grades, it is nevertheless strongly recommended that they do so. They may state that their products have been "Packed under continuous inspection of the U.S. Department of Agriculture,"[16] and use the designations "U.S. Grade A" or "U.S. Fancy," "U.S. Grade B" or "U.S. Choice" or "U.S. Extra Standard," and "U.S. Grade C" or "U.S. Standard" on their labels.[17]

The grade labels advocated by the Department of Agriculture are strongly supported by certain trade-unions and influential consumer groups but have been vigorously opposed by most of the large canners and by certain publishing houses and advertising agencies. The canners have always maintained that subjective factors, such as flavor, which determine the quality of canned goods, do not lend themselves to precise definition and are thus not capable of measurement. They apparently believe that the standards established by the Department of Agriculture are not sufficiently accurate to differentiate in quality between different batches of product and that brands and descriptive labels accomplish differentiation more effectively. They contend that the standards are so inexact as to be meaningless and actually perversive in use. However, objections also are based partly on nontechnical

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[16] U.S. Department of Agriculture, Production and Marketing Administration, *Questions and Answers on Government Inspection of Processed Fruits and Vegetables* (Miscellaneous Publications, No. 598) (Washington: April, 1946), pp. 18–26.

[17] *Ibid.*

considerations. Many canners are averse to any extension of governmental authority into the canning industry, particularly to the inspection service which is necessary under the voluntary scheme proposed by the Department. Finally, the canners feel that grade labeling would have a leveling effect, in that all Grade A, B, or C products might be considered as identical in quality, regardless of source of origin, or at least that there might be less hesitancy than formerly on the part of consumers to try the graded product of small unknown canners or distributors.

If consumers accorded that much validity to grades, it is possible that the large canner might lose some of his hold on the market and that small canners or new concerns might thereby secure some competitive advantage through grade labeling. This is altogether possible, for the very fact that their product could be labeled "U.S. Grade A, B, or C" after inspection by an agent representing the Department of Agriculture would give *authority* to a statement of quality which a company's own claims would not possess in the eyes of consumers. But, the larger canners would argue, this quality might be in part, at least, fictitious because of the ineffectiveness of the standards used for grading purposes, and thus the consumer might be deluded rather than helped by the grade label. Thus the opposition of the canners rests upon either or both of two bases: first, a belief in the inadequacy of specific grades for designating quality and, second, attempted self-protection. If the real case for the first of these bases is sufficiently strong, the canners will probably be able to resist the encroachments on their business of those who use grade labeling even with government certification under the inspection plan.

In view of the progress made by government agencies and consumer groups in inducing the use of government standards and grade labeling and the emphasis placed as a countermove by other processors and distributors on the improvement of descriptive labels, it now seems likely that both types of labeling will be given a thorough trial, and that conclusions as to the attitude of consumers toward each type may, in time, be reached. No matter how the controversy ends, there can be little doubt that labels have been improved. Agitation of the Department of Agriculture and consumer groups has been partially successful through the introduction of grade labels, but it has likewise induced a substantial improvement in descriptive labeling, and the consumer has been benefited thereby. As a matter of business policy, continued resistance to grade labels would be ill advised if descriptive labeling does not prove entirely acceptable and if there is a concerted demand for grade labels on the part of consumers.

Problem of Nomenclature. If description is to be relied upon, as it must be, more or less, even when grades are used, the problem of word selection to convey ideas to the purchaser is ever present. The

Food, Drug, and Cosmetic Act says that the information demanded by the Act should be "in such terms as to render it likely to be read and *understood* by the *ordinary* individual under *customary* conditions of purchase and use."[18] The responsibility of terminology selection is placed squarely on the manufacturer. He must satisfy the F.D.A. that the words and phrases which are used do convey certain ideas. The Administration must therefore interpret consumer reaction to the language used, in order to exercise its authority wisely. When the giving of information is voluntary, an in-between regulatory body does not need to be satisfied, but the problem remains. Information, to be effective, must be understandable. Consumers cover a wide range in ability to understand, by reason of variation in their command of vocabulary and in their experience with certain products. When the term "ordinary individual" is used as in the Food, Drug, and Cosmetic Act, it should be interpreted as referring to the great mass of the market, not necessarily to its least intelligent units. In other words, the problem simmers down to this question: "What words and phrases can be used to convey certain ideas about a product so that, if the material is read, a great proportion of potential purchasers will understand and thus actually be informed?" This suggests the need of investigation directed at the consumer in order to test his reactions to experimental labels. By such investigations it may be possible to determine whether the descriptive terms are effective in conveying the intended ideas.

Technical terms should be avoided unless there is strong evidence that they are generally understood. In describing the temperature of water it would be much better to use the term "wrist temperature" than "98.6 degrees Fahrenheit." The former presumably is understood by most housewives, whereas there might be much doubt concerning the latter and no means of resolving that doubt if a thermometer was not immediately available. This need for rewording technical information calls for much ingenuity on the part of those who construct labels. Only through painstaking effort can substitutes for technical terms be discovered which fit into the experience of consumers and thus become meaningful. In time, through educational effort, a knowledge of technical terms relating to products may become a part of the equipment of a larger number of buyers. The use of some technical terms on labels may hasten the spread of such knowledge. But most information must still be given in nontechnical terms and as simple as possible if it is actually to aid consumers in purchasing.

Use of Inserts. Finally, it should be noted that all the information which is given need not be placed on the container. Inserts are widely used, thereby enabling a producer to give much more information than would otherwise be possible. What is needed to influence pur-

[18] Public Law 717, *op. cit.*, chap. 675 (italics added).

chase—what has real promotional value—should not be hidden within the package. But certain types of information, such as how to care for the product or how to use it, are more essential *after* purchase. In order to achieve a proper balance between printed matter, illustrations, and design factors, all the information usually cannot be given on any package. Because of this limitation, it is important to consider carefully the relative merits of different items from the promotional angle and to reserve the least significant ones for inserts. Although other objectives are attained likewise through the use of inserts, as, for instance, the promotion of other products, explanations of premium offers, investigation of consumer attitude toward the company's products, and so on, still what might be termed "an extension of the label" is a very important objective and one of growing importance in view of the increase in the sum total of information now being given consumers.

Advantages of More Effective Labeling

Effective labeling could be considered from many viewpoints, since it offers advantages to the consumer, the independent distributor, the manufacturer, the manufacturing industry as such, and the economic system as a whole. Our attention here, however, will be focused on the individual manufacturer, although advantages to him are, of course, an outgrowth of advantages to others. Let us note that labeling will be viewed differently by concerns in different positions. Informative labeling is simply a more complete disclosure of the characteristics of merchandise. Therefore, some manufacturers will welcome a "showdown," while others will not because of its expected effect upon their competitive positions. Nevertheless, the following advantages of effective labeling have general validity.

Improved Selling in Retail Outlets. In the majority of retail establishments, retail clerks sell a wide variety of merchandise and cannot know a great deal about each specific item. Furthermore, they may be ineffective in selling because of inadequate training, inexperience, or sheer inability. In such situations, informative labels can help materially by providing pertinent facts at the point of sale.

Reduced Returns and Allowances. Returns and allowances are, in part, a reflection of misapprehensions about merchandise when it is purchased and its ineffectiveness in use. These difficulties may be obviated by giving the consumer more complete information about the product and instructions for its use and care.

Protection against Unfair Competition. Reputable manufacturers with excellent products often need to be protected against the actions of less scrupulous competitors. Legislation against unfair trade practices, including the Wheeler-Lea amendment to the Federal Trade

Commission Act, which prohibits false advertising, and the Food, Drug, and Cosmetic Act, which prohibits mislabeling and misbranding, protect not only the consumer but also the manufacturer whose products and promotional methods are above reproach.

In Line with Economic Objective. The final test of any economic action is whether it increases the satisfaction of human wants. All marketing activities are directed to this general objective through getting goods and services to consumers when, where, and in the form desired. Thus one test of the effectiveness of the marketing system is whether or not it succeeds in adequately informing the consumer about products, so that he may purchase wisely to meet his needs. Labeling is an important means of supplying such information. As it does so, it helps make satisfied customers, who are a most important asset to any manufacturer.

SUMMARY

Recent changes in labeling generally have benefited the consumer by reducing the area of guesswork in purchasing. Some of the changes made mandatory by the Food, Drug, and Cosmetic Act are surely constructive and would not be opposed by any reputable manufacturer. In the case of canned fruits and vegetables, there may be much doubt of the relative efficacy of description and grades, but the fact remains that the consumer is getting much more worth-while information than formerly. Making consumers informed purchasers is an educational process of long duration, and immediate benefits of ample proportions cannot reasonably be expected. But, in time, consumers may learn to use the additional information given, particularly when producers become more skillful in its presentation. Then important economic objectives will have been achieved.

When a movement has reasonable economic objectives, manufacturers should work in line with it; at least they should not be actively antagonistic. If the labeling program is constructive and the position of the consumer in purchasing is improved, it is difficult to see how any reputable manufacturer with a good product could be greatly injured. On the other hand, he is likely to be benefited. Even though the labeling program proves to be innocuous, participation by a particular manufacturer may have some benefit, inasmuch as consumer groups which have clamored for more informative labels will be mollified, and the onus of opposition will not be forthcoming. A good case can be made also for the assertion that the major benefit accrues to the manufacturers who first comply with suggestions which have good backing and appear to have possibilities for consumer benefit. Too great reluctance to comply may cast doubt on a manufacturer's policies and products.

Finally, it is an enlightened policy to refrain from giving government a reason for saying that business is not acting in the public interest. More effective labeling *is* in the public interest, and thus, if for no better reason, manufacturers should co-operate in the program by positive action in reference to their own labels in order to lessen the likelihood of further regulatory legislation. In other words, enlightened self-interest usually demands alignment with, rather than opposition to, any general movement which has reasonable economic objectives, whether or not the movement in its early days appears to be in part ill advised.

REVIEW AND DISCUSSION QUESTIONS

1. Among the principal tests of the effectiveness of a marketing system is whether consumers are enabled to purchase wisely in view of their product needs and desires. Many people believe that marketing systems fall short of a reasonable measure of effectiveness if judged on this basis, and that manufacturers are chiefly responsible. Discuss and appraise the means, other than information on labels, used by manufacturers to aid consumers in purchasing.
2. Should informative and descriptive labeling be considered as synonymous and antithetical to grade labeling?
3. Reputable manufacturers and processors are not in opposition to more effective labeling. Nevertheless, they often do not wish to change their labels in the manner suggested by government agencies and consumer groups, particularly in regard to the use of grade labels. What are the unresolved issues between the two groups?
4. What are the basic differences between the Federal Food and Drug Act of 1906 and the Food, Drug, and Cosmetic Act of 1938? What are the two broad objectives of the 1938 Act?
5. "Whether a label violates the Food, Drug, and Cosmetic Act is in part a matter of fact; in part a matter of judgment. Therefore, the manner in which the Act is administered is of great importance to the business community." Discuss this assertion with particular reference to the matters on which judgment must be exercised.
6. What can the manufacturer do to assure himself that his labels are in conformance with the Food, Drug, and Cosmetic Act prior to their use?
7. In your opinion, would the competitive position of producers of well-known brands of canned fruits and vegetables, such as Del Monte, Stokeley, and Monarch, be jeopardized by legislation such as that in Canada which made grade labeling mandatory?
8. Grade labeling is basically a problem of standardization. Comment.
9. How does the Continuous Inspection Service of the U.S. Department of Agriculture operate? What advantages may be secured from its use by the individual processor?

10. Outline a procedure for determining what information should be placed on labels or inserts in addition to that required by legislation.
11. The following assertions might be made in reference to a manufactured or a processed product:
    a) The attributes of the product which give value are many.
    b) The relative presence of these attributes are measurable in some instances, not measurable in others.
    c) The relative presence of those attributes which can be measured does not indicate reliably the relative presence of the nonmeasurable attributes (size or hardness of peas in relation to flavor).
    d) Product attributes react upon each other in such a manner that different combinations will have varying acceptability to consumers.

    Consider the validity of these assertions in reference to wool textiles (Wool Products Labeling Act), canned foods, furniture, or other products. What is their significance in reference to labeling?
12. The following information appeared in the *NCRC News*, February, 1950, p. 6:

> Fact-Giving Tags Used on Furniture
> Give Information on Construction
>
> The Heywood-Wakefield Company is among the manufacturers who have decided that facts help sell. The firm is using a handsome, large-size tag on its products which provides a nice combination of sales appeal and information of aid to the consumer when she shops for furniture.
>
> Tags used on one piece of Ashcraft furniture, for example, read in part as follows: "Ashcraft furniture is made of seasoned New England White Ash—a wood that ranks high in shock-resistance. The steam-bent frames hold their shape indefinitely. Solid hardwood frames with rounded, smooth-as-glass edges . . . so you don't tear stockings. . . . Compressed tenon joints, pressure-glueing, and rigidly screwed joinings assure long satisfactory service. Water repellent, hard-wearing spar varnish is brought to a stain-smooth gloss by skilled craftsmen. A hard finish on seasoned hardwood gives maximum serviceability.

    Has the information for the label been well selected? Is the terminology understandable to consumers? Would such a label have substantial promotional value?
13. The St. Louis Better Business Bureau, co-operating with bureaus in 13 other cities, bought 272 cans of canned foods which had been graded A, B, or C and had them reinspected and regraded. These canned goods had been graded initially by canners according to U.S. Department of Agriculture, Agricultural Marketing Service standards. The results showed that 25 cans, or 9 per cent, graded better than the declared grade; that 166, or 60 per cent, were graded correctly; and that 84, or 31 per cent, graded lower than the declared grade. Commenting on the results of this survey the St. Louis Bureau, which had

assumed an impartial attitude toward the grade-labeling controversy, said: "We feel that this study raises the question whether grade labeling, as found today, is a reliable method for consumer guidance."

What is the significance of this type of study for the solution of labeling problems? Suggest other research studies which might also be helpful.

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PART III

INVESTIGATION OF THE MARKET

Chapter VII

QUANTITATIVE MARKET ANALYSIS OBJECTIVES

THE PRECEDING chapters have dealt with various aspects of product planning. It was recognized that, in order to proceed wisely, investigation of the market was necessary, for otherwise the product placed upon the market would not be in accordance with consumers' needs and desires. We were concerned with investigation of the market from the qualitative side—more specifically, with questions of what to produce or what to offer the buyer in connection with the physical product. Investigation may likewise be directed at the quantative characteristics of demand. This has often been termed "quantitative market research or analysis," in contrast to analysis which is directed toward the product itself. Both are a part of the broad field of market analysis, which may be defined as that part of the field of marketing research which is concerned with the measurement of demand and the determination of its characteristics.

If the objective of an inquiry is to secure information from the market which may ultimately affect the nature of the product, or which will disclose new uses to which a product may be put, such a study may appropriately be called "qualitative market analysis." If, however, the objective is to determine how much can be sold, when, and in what parts of the total market, it can be called "quantitative market research or analysis." The objective then is to secure an estimate of the quantity of a given product which the market, or certain parts of it, will absorb in oncoming periods of varying length. With this information at hand, plans can be made for the increase of production capacity, the acquisition of raw materials, working capital,

and personnel sufficiently in advance to make possible the production of goods in the amount necessary to meet demand when it appears.

Variation in Importance by Product Type

Analyses of the extent of demand and when it will appear are not of great importance if the product is one for which the production period is relatively short, for then adjustments can be made without difficulty, and errors in judgment are not likely to be costly. As a day-to-day proposition, a local baker must decide on how much of various items to produce. He must make predictions one or, at most, a few days in advance. Losses will result either through the production of too much or too little in relation to the actual demands of customers, and particularly so because the product is perishable and the demand, if not satisfied, is lost. But the baker is likely to make fairly accurate estimates—at least the conditions under which he operates should allow him to do so. He is producing for a limited market, and he is constantly in touch with the individuals who compose that market. Therefore, he should be able to determine the wants of those individuals—not only what product they want, but approximately how much they will take of each item. He is forced to make decisions on the quantity to produce with great frequency and thus acquires skill in so doing. Furthermore, he is producing for a market which is not subject to great variation in demand. Some bakery products are not even subject to seasonal influences or to those of a cyclical character. In general, the conditions are present for reasonably adequate adjustment between supply and demand. Furthermore, this is usually the case for consumers' goods of a convenience type, whether these are produced either for a local or a national market.

For high-value consumers' goods such as furniture or household equipment, or for producers' goods such as machinery or other heavy equipment, the production unit is likely to be large; sales are often made throughout the national market and, perhaps, abroad; and the duration of the production and marketing process may be many months. For a manufacturer who has to start production many months prior to sale, questions regarding the probable extent of demand and when it will appear assume major significance. Fluctuations in demand are an ever present threat to profitable operations. When there is a pronounced seasonality in demand, if similar fluctuations in production are to be avoided, the manufacturer must be able to produce and store his products until they are wanted. But advance production may necessitate the forecasting of demand over a still longer period than the duration of the production and marketing process, and thus the problem is further complicated.

Nor are problems of cyclical and seasonal demand particularly

easy to solve. Moreover, in the usual situation, the extent of total demand is not immediately apparent, nor is the part of total demand which a company can expect to satisfy in competition with others. *Yet, in order to operate profitably, business executives must arrive at reasonably accurate decisions on how much to produce during time intervals.* Shortage of goods when demand appears, too heavy inventories with their resultant costs, perhaps waste through obsolescence, may result from ineffectiveness in determining the correct time at which to produce varying quantities of product for which the duration of the production process is relatively long and seasonal and cyclical fluctuations are usual.

SPECIFIC OBJECTIVES OF QUANTITATIVE ANALYSIS

To Determine Whether to Produce a Product

Before a manufacturer acquires production capacity for a product and assumes the expense necessary to put it on the market, he needs some assurance that there will be sufficient demand forthcoming for profitable operation. The product may have been perfected from a designing point of view, and, through testing procedures, reasonable assurance may have been given that it has utility and that some individuals and institutions are likely to purchase it if it is made available to them; but, unless the demand which can reasonably be expected is sufficiently great, it will not pay to manufacture the product. In other words, it is necessary not only that the product under consideration meets the needs and desires of a consumer group but that the group is of sufficient size, or the demand from each unit of the group is sufficiently great, to furnish a substantial quantity of demand.[1] For instance, a glass manufacturer found that one of his products, glass fiber, was perfectly adapted for use as the hair line on surveying instruments. But if all manufacturers of such instruments used glass fiber for this purpose, still the total demand would have been an infinitesimal amount. For this particular purpose, even though the price charged was exceedingly high, it would not have paid to manufacture the glass fiber. Fortunately, there were numerous other uses for the product—among them, insulation—which made possible quantity production. In all such cases a study is necessary to estimate the total demand for a new product, both immediately and, perhaps, over a

[1] Qualitative and quantitative analysis cannot be completely divorced in time. The probable extent of the market must always be in the minds of those people who are working on new products. At times, products may be designed and tested without a knowledge of potential demand for them, or a quantitative analysis may be made without a contemplated change in product; but the two types of market research often go hand in hand. It is a problem of adjustment between consumer desires, the extent of demand, and, of course, price.

period of years in the future. Such a forecast is particularly necessary for guidance in the creation of production capacity. Moreover, if there are other producers or other products of like type furnishing the same utility, a firm must not only attempt to estimate the total market but also its own share of the total. If the product has no direct competition, only total demand over advance periods would need to be estimated.

If a concern has been losing money on a product and questions whether its production should be discontinued, quantitative analysis may furnish useful information. A market study may show that there is insufficient demand to permit profitable operation, that the demand is decreasing, or, perhaps, that there is a large market for the product, but that competitors have been more successful either in meeting the needs of consumers or in sales promotion. Any one of these conclusions may lead to discontinuance of the product. At least it will probably call for a re-examination of the company's product in comparison with the products of its more successful competitors. If a failure to compete successfully cannot be attributed to a difference in products, an examination of marketing activities may be the next step taken. Perhaps the cause of failure is in that sphere; or it may be that a competitor, because of entering the market at an earlier date, is so firmly entrenched that other producers are at a disadvantage. If such is the case, a decision may be reached to withdraw the product and concentrate attention on others.

A number of years ago, one of the large electric manufacturers decided to withdraw its brand of ignition cable sets for automobiles from the market. A study had shown that another manufacturer of this item was in an exceedingly strong position in the market. His product was well known by purchasers and was handled by many jobbers and retailers. The brand of the first manufacturer, in contrast, was not well known, nor was it widely handled by distributors. Moreover, it was difficult to get distribution, since jobbers and retailers habitually handled but one brand. As a result of these conditions, the conclusion was reached that a heavy advertising expenditure would be necessary to attain widespread distribution and that it would not be justified in view of probable sales results. As the product was a minor one in the company's line, the decision was reached to withdraw it from the market.

To Determine the Order of Market Development

Quantitative analysis can be of particular value for planning market development for new products or by new companies. Seldom is a concern in the position of being able to develop all markets simultaneously, nor would it be wise to do so. Thus a decision must be

made as to *which* market or markets should be developed first, and the order in which the others should follow. To make such decisions wisely, a wealth of information is necessary about markets, all of which centers on the question of potential demand, both immediately and in the future.

There may be a number of distinct markets for a product; for instance, a piece of equipment such as an industrial control device may have potential demand in the steel, railroad equipment, automobile, and refrigeration industries, among others. These industries may have different uses for the product, so that its value to them differs. A product may be used as an assembly part in one industry and as equipment for manufacture in another. For one industry, or perhaps for one company in an industry, the utility given by the product, and thus the savings achieved through its purchase and use, may be substantially greater than for others. Sheer size of the potential market in any industry may not be the controlling factor as to when it should be developed. Susceptibility to sales promotion because of the importance of the product to an industry or a particular company may be the controlling factor in decisions as to the order of market development.

The degree of concentration of potential buyers greatly affects decisions as to order of market development. Therefore, marketing executives would like to know the location of potential demand by area or type of customer—that is, how much each area or type of customer is likely to purchase, relative to others. It is a question of customer accessibility, and, therefore, one of the marketing costs necessary to tap potential demand. It is well to keep in mind that demand units for any product are not spread evenly over the United States, that they are of widely varying size, and that there is much more concentration than casual observation would suggest.[2] According to the 1947 Census of Manufacturers, for instance, 69 counties accounted for 53.4 per cent of the value added by manufacture in the United States.[3] This is 2.2 per cent of the total number of counties. The 11 largest standard metropolitan areas, each with value added by manufacture of more than one billion dollars, accounted for 41.0 per cent.[4] While value added by manufacture is not the only factor which may indicate the extent of the market for industrial equipment and supplies, still it is an important one.

Let us suppose that an item of equipment was developed which had particular usefulness in the sawmill and planing mill industry and that

[2] See *The Primary Markets for Quality Merchandise* (New York: New Yorker Magazine, 1948).

[3] U.S. Department of Commerce, Bureau of the Census, *Census of Manufactures: 1947, Summary Statistics*, M.C. 201 (Washington, D.C.: U.S. Government Printing Office, 1949), pp. 40–49.

[4] *Ibid.*, pp. 30–31.

the question arose as to where sales effort should be concentrated. Three states—Oregon, Washington, and California—account for 39.5 per cent of the value of products shipped in this industry.[5] If seven other states are added, each of which ships product valued at more than $100,000,000 annually, the ten states account for 73.6 per cent of the total. The remaining 26.4 per cent is distributed widely among the other states. Therefore, it is evident that in the initial marketing activities certain states in the Union constitute by far the most fertile markets for developmental purposes.

The industries which constitute markets for producers' goods are usually concentrated in this manner and thus are easily contacted. In some, however, the demand units are more scattered and thus constitute more costly markets to develop. In view of this condition, it may be wise in certain instances to develop markets on a territorial, rather than on an industry, basis. In other words, analysis of the market may lead to a decision to contact all worth-while potential customers in a number of industries in a given area, rather than all companies in a given industry wherever they may be located. Then it is necessary to have information on the potential demand of all potential buyers in each area considered for development. The analysis may go further and obtain information on which specific potential customers the salesmen should contact and the order in which sales calls should be made. Customer lists are widely used, not only for making sure that certain customers are called upon regularly, but also to keep salesmen from wasting their time on potential buyers whose demand is not sufficiently great to permit solicitation on a profitable basis.

For consumers' goods, the problem of which market to develop first is not likely to be so pressing. If the product in which a company is interested has universal demand, population figures furnish a sufficient clue to demand concentration. For consumers' goods the New York market alone is more than equal in demand to the market in many central and western states combined, which embrace a considerable part of the total United States land area. Many examples of equivalent markets could be presented, but they all would further demonstrate the fact that demand is concentrated territorially. With this knowledge before them, business concerns have seen the importance of concentrating sales effort and of "selective distribution," as it is usually called. Large companies which distribute many products nationally may introduce their product over the entire market at one time. Smaller companies are likely to introduce a product in the area around the location of manufacture, but frequently small and me-

[5] These data were taken from U.S. Department of Commerce, Bureau of the Census, *Census of Manufactures: 1947*, Preliminary Industry Report, "Sawmills and Planing Mills, General" (Washington, D.C.: U.S. Government Printing Office, May 16, 1949).

dium-sized concerns have attempted to attain national distribution too soon. In fact, this has been one of the greatest errors of such concerns. Through an increased use of quantitative analyses, many companies have come to recognize that it is more advisable to concentrate their efforts in more limited markets. Questions as to the point of attack on the market do arise, and quantitative analysis has much to contribute. Potentiality of different markets, modified by information on the strength of competition, is likely to be the controlling factor in decisions.

To Decide Whether to Expand Production Capacity

When business activity is increasing and production capacity is overloaded, management must decide whether to expand, in what directions, and to what extent. These are most difficult decisions to make, for they must be based upon estimates of future demand many years in advance. The analyst must extend his examination of the factors affecting a company's future far beyond those necessary for the usual budgeting work. He must be able to interpret the changing aspects of the general economy, the conditions affecting his own industry and directly competing industries, and the special factors which will influence the progress over the years of his own company and its competitors. While time series analysis will undoubtedly be helpful, there are many affecting factors which are not quantitatively measurable, and these factors may profoundly influence the market for many products.

If sales of a certain product have been made over many years, it is helpful to measure long-term trends by statistical means. Growth tendencies thus measured can be extrapolated for predictive purposes, but little weight should be given to the results unless they can be verified by deductive reasoning. When historical background is lacking, greater dependence must be placed upon studies of potential demand, the extent to which the needs of the market have been met, how rapidly saturation is being approached, and the growth of the replacement market. For durable goods, it is especially important to get information on how much business can be expected from replacements and how much from new users. When an industry is fast approaching a stabilized condition but is still getting a large volume of business from those who are purchasing for the first time, there is danger that future demand will not be so great as present demand. As soon as first buyers are largely satisfied, and with a product which may last several years, demand may fall off, since chief dependence must be put on replacement business, and this will appear in limited quantity because most of the product in use is comparatively new. For an industry in this position, expansion might be ruinous, for present capacity might be ample

to take care of total needs as soon as demand from new buyers became less important.

To Determine the Location of New Production Capacity

For many products whose weight is great in relation to value—for instance, certain building materials and heavy chemicals—relative market potential is an important factor in influencing industrial location. Often the problem arises as one of reducing the extent of freight equalization, that is, for increasing the average mill net returns on output. Under a system of uniform delivered price to each demand location, regardless of the location of the supplier, the supplying concern receives a lower or a higher net return depending on the distance the goods are shipped and the freight-rate structure. For instance, on a product such as a heavy chemical the delivered price might be $1.00 per hundredweight at a given destination. If a number of suppliers at various distances shipped some product into this market, their mill nets might range from $0.50 upward toward $1.00, all depending on the costs of freight from their varying locations. That location, barring the affect of other factors, such as raw material availability, will be best from which a concern can secure the highest average mill net returns because of its nearness to the market. While questions of price determination under delivered price systems will not be discussed here, it should be apparent that a knowledge of relative potential demand by areas may be greatly needed, if a concern is to act wisely in the location of new plants.

To Aid in Assignment and Control of Salesmen

Much of the earlier work of quantitative market research had as its objective the control of field-selling activities. Companies were particularly interested in questions of where to locate branch offices, how to delimit sales territories, where to place salesmen, and what should be expected by way of sales volume from each part of the selling organization. These same questions are still very pertinent ones and are the objective of many analyses of potential demand. Because there are a number of ways in which quantitative research may be used in connection with control of the sales forces, the methods will be listed and discussed separately.

Boundaries of Sales Territories. In the earlier days, the determination of sales territories was very haphazard. Territories were assigned to branch offices or salesmen without much study of potential demand or knowledge as to whether all parts of a territory could reasonably be cultivated from a given central point. Territories were often based on the number of dealers to be contacted or on the number of towns

along certain railroad lines. When the automobile largely superseded the train as a means of transportation for salesmen, the sales territories in use needed modification. Ease of transportation by railroads was no longer a significant factor, and thus could be disregarded in most instances. For many products the period of rapid expansion was over, and more careful planning of sales effort was thus needed. It could not be as haphazard as formerly and still be successful. Markets, furthermore, were changing rapidly. After 1920, some areas, such as those affected by the growing automobile industry, were becoming much more important as consuming centers. Because of these conditions, quantitative analyses were badly needed to give direction to sales effort, and many were forthcoming.

Shortly after 1920 a number of studies were published, by national publications and other agencies, which established trading areas based on quantitative research. One of the earliest was published by the International Magazine Company in 1923.[6] The trading areas established in this study have been widely used by business concerns for determining sales territories. Since that time, this study has been revised a number of times, and numerous other studies have appeared.[7] While many studies outlined general trading areas, others have been outlined for specific products—for instance, for groceries, drug products, and consumers' durables. Both retail and wholesale trading areas have been established. While trading areas outlined by governmental agencies, national publications, and other entities may not fit precisely the needs of any particular company or product, still they are helpful in determining sales territories. Moreover, these same trading area studies usually disseminate market data of various sorts, which are likewise useful when decisions as to territories are being made.

Distribution and Routing of Salesmen. Quantitative analyses may show the relative potentiality of different parts of the market and thus indicate how much work there is to do in order to cover each part thoroughly. Potentiality is not the sole determinant, however. The question of accessibility—that is, the ease of getting to buyers, which is an outgrowth of the size of a market and the location of buyers within it—partly determines the need of manpower. With a knowledge of potentiality for sales, physical size of various parts of the market, and spacing of customers within each, reasonable decisions can be made of the relative number of salesmen each will require.

The distribution of manpower cannot safely be based on past sales, for they are the joint result of the presence of demand and of the amount and quality of effort previously expended to tap that demand. Often field representatives do not know of the sources of demand. In

[6] *The Trading Area System of Sales Control* (New York: International Magazine Company, 1923).

[7] See Chapter XXV, pp. 741–43.

one instance, a manufacturer of paper products was convinced that all users were not being contacted by salesmen and that salesmen were not properly distributed among the sales branches. The Pittsburgh market was selected for a test survey. The market was thoroughly combed for users of the company's products, and it was found that the branch organization was calling upon only approximately 25 per cent of potential buyers. Furthermore, salesmen were not contacting many of the largest buyers in the territory. The survey showed faulty direction of salesmen and, moreover, that the branch office was seriously undermanned to do a thorough job of market coverage. Surveys in other cities would probably have shown that, at least relative to Pittsburgh, other branches had too many salesmen. The final result might have been a redistribution of salesmen more nearly in conformance with the sales potentiality of different markets.

For the routing of salesmen, a knowledge of potential demand is essential. If a sales manager knows which are the more fertile areas and which concerns are the largest potential customers, through routing and scheduling of salesmen he can be sure that each area or customer gets its proper share of the salesman's attention. Sales expenditures, in many instances, are greater than they need to be because salesmen do not place their time and effort where it will produce the largest sales volume. As a simple illustration, one automobile branch manager found by investigation that the dealers under his direction often, through carelessness, permitted their salesmen to demonstrate high-priced cars to people with annual incomes of less than $1,000 annually.

To Allocate Advertising and Other Sales Promotional Effort

Manufacturers, and the advertising agencies which serve them, use quantitative market research extensively to allocate advertising. The problem is much the same as in the distribution of the sales force, but somewhat more complicated, since advertising, other than direct mail, cannot be confined so precisely to specific areas as direct solicitation. The problem, of course, is to allocate advertising expenditures in such a way that they will be most productive in influencing people to buy the product being offered. In order to be most productive, advertising and other promotion must be directed, in so far as possible, toward those individuals, industrial establishments, or institutions which have the most need of the product and can use it most effectively. They must be informed of its existence, its qualities, its distinguishing characteristics, and the utility which it will give. The relative presence of those prospects who can benefit most from the use of the product can only be determined through quantitative analysis.

It may be found, for instance, that for a high-value specialty prod-

uct such as home air-conditioning units or automatic dishwashers, the only people who are likely purchasers are those with incomes of $5,000 and over. The number and proportion of such people in each state, county, and metropolitan area can be determined from data on income tax returns or from the 1950 census. With this information at hand, the advertising expenditure which is to be used in local media—that is, in newspapers, outdoor posters, car cards, etc.—can be apportioned directly in accord with the number or proportion of people of such an income level in each area. Admittedly, this is a simplified example, for the potential market for most products is influenced by a number of factors. As we shall see shortly, factors must be combined to secure a good index of potentiality. In that case, sales potentiality for each specific area, such as a state, county, or trading area, would be stated as a percentage of the total market. By using data such as these, the advertiser can be reasonably sure that he is getting a balanced coverage of advertising effort throughout the national market.

In the selection of media, likewise, quantitative research is helpful. After the amount to spend in each area has been determined, the question arises as to what media to use. The problem is partially solved because previous analyses have at least partially characterized potential purchasers and have thus suggested the media or type of media to reach them. If the potential purchaser is a person or a family with an income of $5,000 or over, the better newspapers and the quality magazines may be effective for use. In order to influence selection, publications of all sorts have made elaborate studies to characterize their readers. For instance, *Fortune* has published a study which indicates, among other factors, that 85.55 per cent of *Fortune's* subscribers are management men and that 52.86 per cent are officers, directors, partners, or owners of business concerns. It was also indicated that 65.6 per cent of *Fortune's* families, as compared with only 2.6 per cent of United States families, have incomes of over $5,000.[8] In a study made in 1948 the *New York Herald Tribune* indicated that 53 per cent of the *Herald Tribune* families in 1947 had an income of $5,000 and over, whereas only 15 per cent of United States families and 17 per cent of northeastern United States families in that year had an income of similar size.[9] A statement is made on the front of this publication that "Every newspaper owes its advertisers an exact definition of its readership."

If national publications are considered, then it should be determined to what extent their circulations parallel the potential market as established by quantitative market research. The national magazines

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[8] Time, Incorporated, *100 Pages of Fortune Facts* (New York, 1941). For a more recent study see, *Portrait of a Fortune Reader* (1949).

[9] New York Herald Tribune, *Look with Us into Our Readers' Lives* (Continuing Home Study, 1947) (New York, 1948).

have gone to great lengths to show that their circulations parallel purchasing power and, therefore, that they go primarily into those sections where the manufacturers' sales opportunities are greatest.[10] They have also attempted to show that their circulations parallel *consumption* in each state, county, and city, although there are marked divergencies between *circulation* and *sales at retail.* These studies were, at least in part, provoked by newspaper studies which appeared to show that magazine circulations were relatively deficient in highly urbanized areas. The bases of their claims in this regard were comparisons between retail sales data, as furnished by the Census of Distribution, and magazine circulation data, by political units. These data indicated that the magazines were relatively weak in their coverage of urbanized areas and relatively strong elsewhere. Magazines, in turn, insisted—and to good effect—that the newspapers were confusing where people purchased with where they lived, and, moreover, that they had to be influenced toward purchase at their location of residence. In one particular study made by the Curtis Publishing Company it was shown that, while 71 per cent of all sales of shopping line goods in the United States were made in 498 market centers, only 43 per cent of the actual purchases of shopping line items were made by families who live in those centers. The other 57 per cent of the purchases were made by people living outside the market centers. It was also shown that 62 per cent of the families lived outside of these centers and that 60 per cent of Curtis circulation went to them. In this way it was indicated that Curtis circulation did, in fact, parallel purchasers locationally, although it did not parallel the location of retail sales.[11] There was virtue in this assertion, and with sales distributed by the Location of Purchasers there was considerably less evidence that magazines were deficient in their coverage of urban centers.

To Determine the Effectiveness of Sales Effort

Quantitative analyses have probably been made more frequently to determine the effectiveness of sales effort than for any other purpose. They are made because executives realize that variations in sales volume as between different territories are, in part, the result of differences in the opportunities present in each for sales. The same quantity and quality of sales effort expended in two territories with different potentiality for purchase will yield quite different results. In a territory with limited capacity for purchase, because of a relative lack of industry or low consumer purchasing power, the expenditure of funds for solicitation and advertising will not yield so much in sales

[10] The Curtis Publishing Company, *Selling the National Market* (Philadelphia, 1949), pp. 16–17.

[11] *Ibid.*, pp. 24–25.

volume as in more fertile territories. What is needed is a standard for comparison to show how much sales volume *should* be expected from one territory relative to another, and at least a rough estimate of this can be secured through quantitative analysis. As a result of analysis it may be found that a certain territory, in view of the size and type of its industries and institutions, or other factors which influence purchases, should take 10 per cent of total sales. Actually, however, it may be taking only 5 per cent. Furthermore, company records may show that more than 10 per cent of total sales expenditures are being made in this territory. This would constitute fairly convincing evidence of ineffectiveness of sales effort. Through such comparisons, a company can get some information on the strong and weak points in its territorial sales distribution and then can take what action appears to be necessary. At least, knowledge is gained of the fact of weakness, which is essential before further studies can be made to establish reasons therefor.

It should not be assumed, for instance, that a company should in the future concentrate its efforts in those territories in which it has been least effective in the past. Perhaps it would be better strategy to place greater effort on those areas in which it is relatively strong competitively, as shown by the comparison of potential and sales. Questions of future policy such as this can only be answered after all of the conditions surrounding a particular situation are taken into consideration. Even then, the decisions arrived at may not prove to be particularly wise ones. But at least the fact of strength or weakness can be established with a reasonable degree of accuracy, and, furthermore, some evidence may be adduced as to whether such weakness was caused by ineffective or insufficient sales effort.

To Establish Sales Quotas. Performance in relation to quota assignments has come to be the most accepted means for the evaluation of performance by territorial units or individual salesmen. A sales quota is a sales goal for a specified period in advance, which is used in the management of sales efforts. The assignment of a quota means that a certain part of the over-all sales volume expectation, i.e., the company's sales potential, for an advanced period has been assigned to a division, district, branch office, salesman, or perhaps to an independent dealer, as in the automobile industry. In order to set quotas equitably, management must know as much as possible of the opportunity for sales in each territory. This calls for quantitative research to establish an index of potentiality by territories, and perhaps to go further and rate particular industries and customers as demand units. With this information at hand, together with information on past sales and competitive position in the various territories, quotas can be established which are equitable and which secure the acceptance of sales representatives.

SUMMARY

Some of the decisions which must be made by management and their significance to the well-being of the business enterprise have been indicated in the preceding discussion. There are no more important decisions than those concerned with the determination of whether to produce a product or product line; where to start market development, geographically or by type of buyer; whether to expand production capacity, and, if so, where to locate new manufacturing facilities. Those decisions concerned with the management of sales personnel and the distribution of promotional effort are of shorter-range importance in most instances; yet they greatly affect the degree of success attained in operations. None of these decisions can be made wisely without a knowledge of the quantitative characteristics of the market. While the knowledge which can be obtained is often sketchy and inconclusive at many points, some knowledge is infinitely better than none, as many business executives who have been faced with the necessity for decisions of this character will testify. Attempting to look ahead and see what the demand for a product will be in advance periods and where this demand will appear in various parts of the market is thus both a necessity and a hazardous undertaking. For business concerns in a free enterprise economy, such an analysis cannot be avoided.

REVIEW AND DISCUSSION QUESTIONS

1. The essential purpose of market analysis is to minimize the errors made by business executives both in the production and in the distribution of their products. What errors, in your judgment, have occurred most frequently in the marketing of manufactured products? Have these errors been costly to the manufacturer; to the economy as a whole? What possibilities are there that marketing research will make these errors less likely in the future, or, in certain instances, prevent their recurrence?
2. Much has been written in recent years about the problems incident to a planned economic order. Compare the marketing research problems involved in the operation of a "planned economy" with those which arise when business is allowed to operate with a large measure of freedom from government interference. Would a socialistic or a communistic state have need for marketing research work?
3. Significant differences exist in the problems presented, the methods which can be used, and the nature of the results which can be attained in research work in the social sciences as compared to research work in the physical sciences. Comment.
4. Under what conditions is quantitative investigation of the market particularly difficult?
5. What information does the manufacturer need in order to determine which of various markets for his products should first be developed?

6. What are the factors which most influence the location of manufacturing and processing industries? Under what conditions are marketing factors likely to be more important than other factors in decisions on location?
7. Distribution of man power, advertising, and other promotional efforts over the market in accordance with a company's past sales is probably unwise. Why?

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Chapter VIII

DETERMINATION OF MARKET POTENTIALS, SALES POTENTIALS, AND SALES QUOTAS

WITH the objectives of quantitative market analysis in mind, we now turn to questions of procedure—more specifically, to the means by which the extent of the market for goods and services can be determined. It is a question of forecasting the probable demand for particular products or types of product over advance periods of varying length—perhaps for a period of three to five years, perhaps for only a few months. We are concerned here with the extent of the market as a whole, not with the market for a particular company's products. However, it will first be necessary to deal with definitions, for there is confusion in terminology in this area of management. While there is nothing sacrosanct about definitions, it is necessary for people to get on common ground for the exchange of ideas.

QUESTIONS OF DEFINITION

In this treatise, the term "market potential" will be thought of as the expected sales of a commodity, a group of commodities, or a service by all suppliers in a market, i.e., by an industry, over a stated period. The term "sales potential" will refer to that part of the total expected sales which a particular company expects to make. And the term "sales quota" will represent a sales goal for a specified period in advance, in terms either of dollars or physical units, used in the management of sales efforts. Strictly speaking, the term "quota" implies a breakdown of a total sum into parts which are then assigned to each member of a group. Here a quota will be, therefore, a part of the sales potential assigned to a field representative or a territorial unit.

At times the term "company quota" is used by businessmen for total expected sales. There is logic to the concept, since it is the sum total of all quotas. There is also logic in the use of the term "potential" for "quota" because the quota *is* the sales potential for a limited sector of the market—a sales territory, district, or region. It is not the market potential, however. For purposes of clarity and mutual understanding, it is always advisable to use the term "market potential"

when referring to industry sales, and the terms "sales potential" and "sales quota" when referring to company sales.

One further concept should be kept in mind. In addition to the sales potential or company sales quota, company executives may refer to a "sales budget figure," which has been described as a prediction of the minimum expectancy of sales over an advanced period. This figure is a highly conservative estimate—one which is used for forecasts of revenue, acquisition of raw materials, decisions on plant capacity, etc. In contrast, the sales potential is a more optimistic figure—a target to shoot at, perhaps something more than a reasonable expectancy of sales. If a company's analytical work is of a high order, and if nothing of a highly unpredictable character happens during the period for which the estimates are made, actual sales may well fall between the sales budget figure and the sales potential figure.

It should be noted that the definition of market potential makes reference to a stated period. Thus there are two steps involved: first, an estimate of potential demand and, second, an estimate of how much of that demand will be forthcoming over a certain period. It might be estimated, for instance, that ultimately so many television sets will be sold under certain conditions of promotion, price, and product improvement. While such a conclusion, if based upon sound premises, is important, estimates of forthcoming demand for six months, a year, or a two-year period ahead have much greater significance for purposes of guidance.

NATURE OF THE TASK

It should be recognized that analysts who attempt to determine market potentials are engaged in a predictive process which is an essentially difficult one, for they are attempting to foresee how the market will respond to types of products, prices, and promotional activity. Markets are people in the aggregate. They may buy for personal, industrial, or institutional uses. The market may constitute the entire population, as for some staple food products; or a very selected part of the total, as a small sector of the foreign population; or some group of industries; or even a particular industry. The problem is to determine who are the potential buyers, how much they are likely to purchase, when they are likely to purchase, and where they are located geographically. Both motivation for purchase and ability to purchase must be taken into consideration.

In view of the difficulty of the problem involved, great accuracy in predicting and timing forthcoming demand can neither be expected nor realized. Still, like every other problem, it can be attacked in a careful and painstaking manner. Even then, estimates should be rechecked frequently when new information of a pertinent character

appears. While the task is always a difficult one, there is a considerable range in difficulty, depending upon how long a product has been on the market and the amount of statistical information which has been accumulated on past sales, types of purchasers, and the uses to which the product has been put by them. Often the market potential has been considerably increased by suggesting and popularizing new uses. Citrus fruits are an excellent case in point. When an entirely new product comes on the market—such a product, for instance, as Fiberglas or Koroseal—there is not much basis for an estimate of potential demand. But as time goes on, a knowledge of the potential uses of such a product is accumulated through experimentation, and the sources of future demand become more apparent. Analysis yields information, none too exact but nevertheless useful, on both the extent and location of demand.

IDENTIFICATION OF PRODUCT USES AND POTENTIAL USERS

It has frequently been said that analysis of a product is the first step in quantitative analysis of the market for it. This cannot be strictly true, for product analysis deals with qualitative rather than quantitative considerations. Still, the necessity for an investigator to have the characteristics of the product fully in mind before a study of demand gets under way cannot effectively be disputed. He needs to know what a product is, what it will do, and, equally important, its limitations in use. A thorough knowledge of a product thus is a necessary preliminary to the determination of the uses which it may have or of its potential users, and these are the *units of measurement* for quantitative analyses. Take, for example, a new chemical product which appears as a by-product from other manufacture. Those who are in charge of new product development from the market side will first need a record of the properties of the product and all other evidence as to its characteristics. Leads as to possible use may be secured from salesmen, technical service men, and from many other sources. And, finally, after discovering and testing uses, the company can proceed to studies of the extent of potential demand.

For an established product, the first step in quantitative analysis may be an analysis of past sales or of efforts to sell. If the product is a producers', rather than a consumers' good, significant information as to the type of concerns or institutions which have bought in the past and the relative amounts purchased by each type may be in a company's records. It is only necessary that the type of buyer be indicated on the invoices and that the data be accumulated. For instance, a paper manufacturing company, which served both the industrial market and the consumers' market, had some evidence that sales to

the former had not kept pace with sales to the latter. The products involved were paper towels and toilet tissue. In order to get a picture of the industrial market, the company first used past sales and solicitation records.

We could have surveyed industry by industry, charted the number of buying units in each, fixed the index of consumption, and forecast the growth of these various types of industry, but time was lacking. Instead, we carefully checked every salesman's daily call report for three months and recorded every call by type of business. Finally the market began to take shape, reaching into almost all avenues of business enterprise. By checking the number of successes against failures to sell in each of these groups we were able to estimate the percentages of business available in the various segments of the total market. In order to check our results we tested our figures against certain known factors in what we might term test markets. Now we had a complete picture of our interbusiness market with the percentages for each segment.[1]

Through this study the company was able to divide the total market into thirteen sectors or broad industry, merchandising, and service units, and roughly to determine the proportion of total demand which should be expected from each.

It may not be safe, however, to trust information secured in this way too greatly. The data other than those secured through recourse to test markets were simply a reflection of company experience. A company may have entirely neglected certain portions of the market, either certain types of buyers or certain territories. In other words, there is some evidence, but *not* conclusive evidence, in company sales and solicitation records as to who the buyers of a certain product are, the amounts of product which they take, and, therefore, the location of demand in various sectors of the market. Sales or solicitations of any one company may not accurately reflect industry sales; in fact, they are not likely to do so in most instances. But, as the distribution of industry sales of a given product are usually not available, and as an industry-by-industry survey to identify potential buyers and the amounts which they will take is both time-consuming and costly, a company's data on past sales may have to be used as a starting point in the determination of market potentials.

For consumers' goods, likewise, companies need to identify and characterize users, in either a direct or an indirect manner. For instance, through a series of interviews with consumers who have actually purchased and used a product, such facts may be established as their income status, educational training, racial background, and other characteristics; likewise the conditions under which they live, such as

[1] From an unpublished paper by Burton E. Ebert, presented at a meeting of the American Marketing Association, 1938.

climate, urban or rural, may be ascertained. In this way, the unit of measurement for quantitative analysis of a consumer's good can be discovered. Then the problem is to determine the number of such people living under such conditions in various parts of the market. This may be done through statistics of population, income or wealth, education, race or nationality, climate, and other indexes by which the presence of consumers with certain characteristics and living conditions are shown. However, the less costly, and therefore the more frequently used, procedure for determining the characteristics of the consumer is through correlation analysis in which an index of company or industry sales is used as the dependent variable and indexes of population, income, urbanization, or of other factors are used as the independent variables. More will be said of this procedure later. But whichever method is used, the objective is to characterize the user and/or the conditions under which he lives so that the number in various parts of the market may be ascertained.

BASIC PROCEDURES FOR DETERMINING MARKET POTENTIALS

With a knowledge of the uses to which a product may be put and of the probable users, the investigator may follow either one or both of two general procedures. The first of these may be called the "individual unit forecast procedure," or the "direct evaluation method;" the second, the "over-all forecast procedure," or, as it is sometimes called, the "index method." The significance of the terminology used in each instance will soon be apparent. The first of these methods starts with specific potential buyers or types of buyer, if they can be classified into groups with like characteristics. Each one is evaluated as a demand unit for the product under consideration. A manufacturing concern, for instance, may be a potential buyer for one or for many units of a product, let us say motors or tons of cleaning compound. If there are other concerns which produce the same class of products or furnish the same type of service, they can be presumed likewise to be potential buyers and, perhaps, that demand will vary directly with the volume of output. Thus the demand from a group of like concerns can be estimated by determining the needs of one concern, the number of concerns, their size as indicated by output, number of employees, or some other such data, and subsequent computation.

The estimates of potential demand from potential buyers of different classes can then be accumulated to get an estimate for larger units, such as sales territories, trading areas, and the market as a whole. This procedure is often used for capital goods, such as machinery and other equipment items, and for supplies which go to manufacturing

concerns and producers of nonagricultural raw materials. The number of potential buyers is small and the market is clearly delineated, as compared with the situation for consumers' goods, and thus the direct evaluation procedure may be followed with less difficulty.

The over-all forecast procedure, or index method, may be used for either producers' or consumers' goods. It may be the only feasible method in many instances for consumers' goods. In use it has many variations, some of them very simple, others highly complex. Essentially, it consists of a forecast of demand and then the application of an index of some sort or a number of indexes in combination to indicate differences in potentiality for sales for different parts of the market. For instance, an index of a company's past sales in its different sales territories, or an index of the past sales of all producers of similar products, if such data are available, may be used as evidence of potentiality for future sales. In the past, many companies have used an index of population, thereby assuming that their sales should vary between different parts of the market in accord with the relative presence of individuals; that is, that per capita sales should be the same everywhere. Later, the population figure was refined and often combined with indexes of purchasing power in order to get a truer measure of potential demand. Factors are selected and combinations are made in numerous ways, as we shall see in subsequent discussion.

An index of potentiality is useful even though it is not applied to an over-all estimate of demand for an advanced period. It does show concentration of demand, and therefore gives some indication as to the desirable order of market development. However, an index is usually applied to an over-all estimate of industry or company sales for an advanced period in order to determine what part of the total each political unit, sales territory, or trading area should take in view of the factors there present which condition sales. Such an index is an instrument for breaking down an over-all estimate of forthcoming demand to various parts of the market, i.e., for determining that one territory should take, let us say, 10 per cent of the total estimated sales while another territory should take only 5 per cent in view of the conditions present in each. Thus the essential difference between these two procedures is that one is a process of making many individual estimates and accumulating them into totals, while the other is one of making an over-all estimate and then breaking it down to territorial units by the use of an index.

The direct evaluation procedure for potential demand studies on products which are widely used by consumers cannot be followed, in most cases, because of considerations of time and cost. It would not be physically impossible to go to every consumer in the United States and, through conversation with him and observation of his environment, to arrive at a decision as to the likelihood of his purchasing a

given product sometime in the future. Nor would it be impossible to conduct such an investigation by means of a sufficiently large and representative sample, and then to accumulate data on these decisions for sales territories or trading areas. However, for most individual concerns this procedure obviously is not within the range of possibility other, perhaps, than in local situations where one concern, a public utility, for instance, has very intensive distribution. Moreover, it is not necessary in the great majority of instances; for the government, through the various censuses, and much in the manner suggested, does get data from individuals and business concerns and then, through compilation, arrives at numerical totals and averages which characterize groups in political divisions. Data useful in quantitative market investigations are also collected and summarized by government departments other than the Census and by quasi-public and private institutions. Thus, by what constitutes co-operative effort, individual concerns are often relieved of the necessity of gathering information directly from individuals.

We will now proceed to a more detailed consideration of the procedures which may be used for the determination of potential demand, their possibilities in use, and their limitations. Attention should be focused on these questions: whether each procedure can be depended upon to give a reasonably accurate quantitative picture of the market, whether the procedure itself is faulty, or whether the manner in which it is used is likely to produce error. Both procedures are frequently used simultaneously for checking purposes and for experimentation to determine their relative effectiveness in the prediction of actual sales. An effort to reconcile the estimates made through the two procedures may reveal inconsistencies and inaccuracies in either one or both, and then adjustments can be made in the data and, perhaps, in the estimating procedures themselves. Considerations of time and cost should also be borne in mind, for data often needs to be assembled quickly, and some degree of accuracy must be sacrificed to the time element. Furthermore, for some uses, a rough picture of market potential may be all that is necessary. Additional refinements may be secured at too great cost.

INDIVIDUAL UNIT FORECAST PROCEDURE

In the application of this method, it is first necessary to secure information on the uses to which a product may be put, or the characteristics which identify the probable user, if the product is a consumers' good. For products which have been on the market for some time, this information has been at least partially acquired, but often companies assume that they knew who the potential users of their products are, whereas in fact their information is anything but com-

prehensive. The use, as in the case of oil furnaces for residences, may be a matter of common knowledge. The problem is to determine the number of potential users, which as a matter of determining purchasing power levels, costs of alternative means of heating, and, probably, of other factors likewise. At times, however, for new products, it is necessary to take definite steps to ascertain what the uses of a product may be.

An Illustrative Case—Industrial Equipment

For example, one of the electric companies developed a product which was called a motivator.[2] It was a patented device which produced a straight–line, constant pressure thrust from an electric-driven motor drive. There were two general fields of application: (1) to supply pressure and actuate lever mechanisms; and (2) to replace muscular effort with electric control on hand- and foot-operated machines. Manufacturing industries, central power stations, railroad repair shops, gas companies, large garages, and other groups which use metalworking machinery were potential buyers of the product, and each was investigated to determine how and where the motivator could be used. For instance, in an effort to determine the nature of the market, a thorough study was made, by trained engineers, of the plants of a large steel company. It was found that the motivator could be used as an attachment on many machines. Through this investigation it was determined that over 1,700 units of the product could be used by this one company alone as an attachment on 20 different types of equipment. With this information at hand, applications in other industries also could be determined, since they were using some units of the same equipment as the steelmakers. The location of such equipment could be learned from data on inventories of metalworking equipment furnished by the *American Machinist*, as well as from other sources. Information was secured as to possible application in 62 industries, either by direct investigation, or by determining potential demand from data on machines in use. These industries, together with the applications in each, are shown in Table 1.

After the industries in which the device could be used were identified and the possible applications in each were determined, data on the number of establishments in each industry were secured from census records. Establishments with a value of products sold of less than $500,000 were not considered as sufficiently large to merit attention initially and thus were excluded in the computations of potential demand. On the basis of the accumulated information—the uses of the

[2] Adapted from "The Hale Electric Company," *Michigan Business Cases* (Market Analysis Series, No. 1) (Ann Arbor: Bureau of Business Research, University of Michigan, 1934.)

TABLE 1

MARKET OPPORTUNITIES FOR MOTIVATORS*

	C&P List	Industry	Number of Establishments — Value of Products, 1928: $1,000,000 and over	$500,000 to $1,000,000	Total Worth While	Total 1925	Total 1929	APPLICATIONS: Oven door operators	Automatic roll machine control	Valve operators	Conveyor switching control	Door operators	Bottle machine control	Arbor press control	Nail pullers	Box machine operators	Can machine pressure	Bolt fasteners	Hopper door operators	Crane and hoist brakes	Punch press control	Stamping press control	Spot welding machine control	Furnace door operators	Crimping machine control	Press operators	Shear pressure	Speed change clutch control	Machine tool control	Welding machine control	Power cutter control	Gate operators	Tire machine operators	Roll spreaders	Reel strippers	Cotton drier suction control	Laundry press control	Application on plant equipment	Application on manufactured products	Suggested method of reaching potential customers	In addition to space advertising per establishment	Estimated potential business in units
Food Industries		Bakeries																																						
		Beverage Mfrs and Bottling Wks																																						
		Canning and Preserving																																						
		Confectioners and Ice Cream																																						
		Dairy Products																																						
		Flour, Feed, and Grain																																						
		Grain Elevators																																						
		Slaughtering and Meat Packing																																						
		Sugar Mfrs and Refiners																																						
		Food Products (others)																																						
Metalworking Industries		Agricultural Implements																																						
		Aircraft and Engine Mfrs.																																						
		Auto, Bus, and Cycle Mfrs.																																						
		Car and Locomotive Mfrs																																						
		Laundry Machine Mfrs.																																						
		Crane and Hoist Mfrs																																						
		Electric Home Appliance Mfrs.																																						
		Electric Appliance and Supply Mfrs.																																						
		Hardware, Tool, and Cutlery Mfrs.																																						
		Heating and Ventilating Equip Mfrs																																						
		Woodworking Machine Mfrs																																						
		Instrument Mfrs. (except Elect)																																						
		Machine Tool Mfrs.																																						
		Power Shovel and Dredge Mfrs																																						
		Pump and Compressor Mfrs																																						
		Ship and Boat Builders																																						
		Stn. Eng., Turbine and Boiler Mfrs.																																						
		Metal Product Mfrs. (other)																																						

* This table shows only a part of the table; in the full table, many other industries are listed.

motivator, the types of machines on which it could effectively be used, the presence of those machines in various industries, the number of worth-while establishments in each industry, and, probably, some knowledge of the average size of those establishments—an estimate was made of the number of motivator units required per establishment in each industry. Where the number of machines, tools, or other equipment on which motivators could be used was not known, a conservative estimate of one and, in some cases, two units per establishment was made. In this manner, the market potential in worth-while establishments in each industry was determined and, through compilation, in all industry.

Further steps in the investigation were to estimate how rapidly the market potential could be tapped through sales effort and to locate the potential demand territorially. Another step, one which usually needs to be taken, is to estimate what part of the forthcoming demand a particular concern can secure in competition with others. In this instance, however, the product was a new one which had not as yet experienced competition. Considering the importance of the new product to some potential users, both for manufacturing use and as an assembly part on equipment being manufactured for sale; the relative ease of getting to potential buyers; the cost of the product and its price; and experience over a six months' period in actual sales, an estimate was made of probable sales for a year or two in advance.

The next step was to locate the potential market territorially. It was necessary to determine what portions of demand were resident in different areas or sales territories in order to act rationally in reference to sales promotional activities. In this particular study, the estimated demand from each industry was apportioned between nine sections of the country through the use of an index based on horsepower in use and value added by manufacture. In other words, it was assumed that the potential demand for the motivator should vary directly with the presence of these two factors.

Another manner of apportionment between territories is frequently used and is more in keeping with the direct evaluation method. It is to isolate specific companies in each industry and, through data on the extent of their output, if procurable, or other evidence of their size, to evaluate them as demand units. The data available from *Thomas Register of American Manufacturers, Dun & Bradstreet's Reference Book* and detailed reports on individual concerns, *Standard & Poors Corporation Records*, and trade associations are useful in this process of evaluation. It is not necessary to evaluate all companies as demand units if there are many small ones among them. In most industries, a relatively few companies manufacture a large proportion of the total output. If these larger companies can be identified, located geographically, and evaluated as demand units,

the potential demand by sales territories can be estimated without too great difficulty.

Individual Unit Forecasts for Consumers' Goods

For consumers' goods, individual unit forecasts may be made also, but they are more cumbersome and less satisfactory than for producers' goods. Some of the automobile companies, for instance, ask each of their dealers to estimate potential demand in their territories for a year ahead and to make quarterly revisions. Through subsequent review of these estimates by branch and divisional managers, the estimates can be improved. Companies may depend upon salesmen to make estimates of the amounts sold by all dealers of the types of product in which the company is interested, and, on the basis of this information, may draw conclusions as to potential demand. If sales men can and will make thorough investigations in each community in their territories and, either by questioning dealers, or through observation, come to some decision as to what sales are made or are likely to be made, important information as to the extent of the market can be secured. It is very difficult, however, to get the salesmen to do the work conscientiously. Furthermore, such investigations do take time which might be used for active selling work. On the other hand, the request for an estimate forces the salesman to consider all prospects in the market which he covers and obtains useful information for the home office. When the information is accumulated, it may disclose the fact that some territories are too large for the manpower used there, while others are too small, and thus bring about territory adjustments.

The individual unit forecast procedure, or direct evaluation method, should now be reasonably evident. In summary, it may consist of determining the possible uses of a product; identifying the type of user, evaluating the type of user as a source of potential demand; identifying the actual potential user or purchaser—that is, an individual or a business concern; evaluating the actual user, or purchaser, as a source of potential demand; determining the location of the actual user, or purchaser; and, finally, compiling data on potential demand in order to get totals for desired territorial units such as trading areas or sales territories. This procedure may be foreshortened in many instances. If the product can only be used by a very limited number of concerns and, perhaps, only in a single industry, then the procedural steps are fewer than in more complex situations. In the motivator study, the procedure was foreshortened by using an index to determine location of potential demand by territories instead of identifying and evaluating business concerns as demand units.

Appraisal of the Method

The accuracy of the results obtained by the individual unit forecast procedure depends largely on the thoroughness with which the method is applied, on how carefully and painstakingly the work is done. The final data, in any case, is simply the compilation of a series of individual estimates which are made in reference to particular situations. There is nothing in the procedure itself which creates error, but only in the manner in which it may be followed. If the number of potential users is very small, and a thorough study of the potential needs of each can be made—for instance, the survey of the steel plants for motivators—then a large measure of accuracy can be attained. But for most situations, samples must be used, assumptions as to likeness must be made, and these may be productive of error. There may be too many potential buyers to make an analysis of the situation of each feasible from a cost or a time point of view.

It was assumed in the motivator study that all establishments with less than $500,000 value of output were not worth-while prospects for motivators, and thus these companies were not included in the determination of potential demand. But is it not reasonable to assume that establishments with less than this output in some industries might be greater potential users of the product than establishments with more than this output in other industries? Only additional investigation would reveal such facts. Again, it may be assumed that all companies of a certain size in a given industry will have the same potential demand for a product. But this may not necessarily be the case, for one may use somewhat different processes of manufacture than another. Still, this assumption may be reasonably safe, and acting upon it may save much time and effort. Whether or not individual unit forecasts are feasible depends then, in part, on the reasonableness of the assumptions which the investigator is forced to make to keep the study in due bounds with relation to time and cost. This in turn depends, in part, on whether or not the number of potential buyers is small and whether or not the market is clearly delineated.

Finally, it should be recognized that there are many possibilities of error in attempting to determine the market potential for any really new product which is placed on the market. There are many unknowns involved, yet a company, in order to proceed rationally, must attempt to discover uses and users of its new products, the probable demand for it, and where that demand is located. Only through direct evaluation, in many instances, can progress be made toward an understanding of the market. Initially, it is market investigation "from scratch." Data can be assembled later on actual sales by types of customer. While these data will be useful, it must be remembered that

sales are an expression, not only of potential demand, but also of where a company exerted sales effort. Market evaluation will continue to be necessary for purposes of guidance.

OVER-ALL FORECAST PROCEDURE

For going concerns, there are five principal steps involved in this procedure, if it is carried to its logical conclusion. They are as follows: (1) an attempt to forecast business conditions; (2) an attempt to forecast the effect of a contemplated change in business conditions upon the demand for the products of a particular industry, perhaps by product type; (3) an attempt to forecast what part of the total industry sales contemplated, product by product if they differ appreciably, will be made by the particular concern in question; (4) preparation or selection of an index to break down the company's contemplated sales volume to territorial units; (5) application of the index to the contemplated sales volume figure, i.e., the sales potential, to determine how much each territorial unit should take of the total, in view of the factors which affect purchases there present. The first three steps will be considered with brevity, since forecasting constitutes a separate field of study and, furthermore, forecasting work in many instances is not under sales executives. At least, the nature of the problem involved will be indicated. Steps 4 and 5 will be considered in greater detail. Because data upon the relative potentialities for sales of the various territorial units are a principal basis for the determination of sales quotas, this subject will then be considered at some length.

Forecast of Business Conditions

This step is of greater or lesser importance, depending upon the nature of the product or products manufactured, for changes in business conditions affect the sales of different products in dissimilar degree. Producers' goods are usually more vulnerable to a downward movement in business activities than are consumers' goods. The demand for some products may be affected but slightly by a deterioration in business conditions. Also, some concerns, for instance in the food industry, may be able to counteract unfavorable changes by greater promotional effort. Nevertheless, for most industries, business conditions are an important determinant of sales volume.

Many companies, especially the larger ones which have competent statistical staffs, watch business trends closely. Furthermore, they are in a position to make judgments concerning business conditions in advance periods and the likely effect of changes, either favorable or unfavorable, upon the demand for the products in which they are

interested. The difficulties of making reliable forecasts cannot, however, easily be overstated. Now these difficulties are even greater than formerly, and, perhaps, much exactitude is beyond the range of human ability. Our economy has become exceedingly complex. It is not a free economy in the sense that the economic process is allowed to function without considerable interference by government, and decisions by government officials can appreciably affect business prospects, either favorably or unfavorably. Such decisions are very difficult to forecast, or, at least, to time in advance. At present, international tensions and the changes which they produce are an important determinant of business conditions. These changes are also highly unpredictable. Yet, despite the complexity of economic life and the difficulties of prediction of governmental decisions and international events, estimates of probable demand must be made for the guidance of the individual business enterprise.

Approaches to Forecasting. While no attempt will be made to discuss this question of forecasting general business conditions in detail, apparently there are three approaches which may be followed: the lead-lag, the econometric, and the "sound judgment." Each approach is distinguishable, and each has many adherents. Often it is advisable to follow all promising approaches in the hope of more accurate prediction.[3]

The logic behind the lead-lag approach is generally known and understood. It is based upon the fact that not all statistical time series move up and down concurrently. Some are highly erratic, while others exhibit a persistent tendency to lead or to lag changes in the general business situation. Those series which have this tendency to lead can be watched closely, for any tendency to change direction may be a forerunner of change in business conditions generally. Of course, this time relationship may not always be present—a tendency is just a tendency. Still, if it is present three times out of four, a knowledge of the relationship is of significance to the forecaster.

In addition to the use of the lead-lag approach for anticipating changes in general business conditions, a company may attempt to find a series which directly leads its own sales. For instance, one large manufacturer of sanitary fixtures and radiators found that there was a time lag of a number of months in changes in its own sales volume in relation to changes in building contracts awarded, as reported by the F. W. Dodge Corporation. The company also found that building permits, as reported by the Bureau of Labor Statistics, had a lead relationship over contracts awarded by a couple of months. In other words, building permits came first, building contracts about two

[3] The author is indebted to Paul W. McCracken, Professor of Business Conditions, School of Business Administration, University of Michigan, for some of the materials presented in the next few pages.

months later, and a demand for sanitary fixtures and radiators roughly four to six months still later. While these relationships did not always hold, still they were helpful in forecasting demand. Company analysts reported that a knowledge of these time relationships had enabled them to project sales volume for a year ahead with some success.

The difficulties involved in the use of the lead-lag relationship in the past have been that people have assumed an *invariable* relationship, have placed complete reliance upon it, and have been sadly disillusioned when, for some reason or other, the relationship did not hold. Some reliance on other approaches might have obviated the error. Furthermore, while a time relationship between series may give some indication of the turn in general business conditions, it is not as useful for providing a quantitative forecast of business prospects.[4]

The econometric approach is an attempt to forecast business conditions on the basis of what is known about economic principles and interrelationships, expressed algebraically. Its objective is not a qualitative judgment about the future, but a precise quantitative estimate. There is much work going forward in this field, and many consider it promising. Others are much more doubtful that all factors in the situation can be reduced to mathematical terms, and that relationships, once observed, will hold in the future. Again, the question is how much reliance should be placed on quantitative indications of future business activity. In passing, it might be noted that one of the most successful of these econometric forecasting operations is that developed by Charles F. Roos. Basically, his procedure is a device for estimating capital outlays about six months in advance on the basis of profits, interest rates, and capacity.[5]

The "sound judgment" approach is simply an attempt to ascertain and weigh the significance of the principal factors which affect the economy, and to come to some reasoned conclusion on the likelihood of change in general business activity and on its direction and probable magnitude. It is an attempt to determine the forces which will deflect the economy from its present level of activity and to estimate

[4] A new and promising approach to the use of lead-lag relationships has recently been made through the National Bureau of Economic Research, Inc. By the application of objective criteria, series are selected whose timing in successive business cycles has been relatively systematic. These are then grouped according to whether they have preceeded cyclical turns in general business activity, roughly coincided with them, or typically followed. While members of the group which have preceeded may not be particularly reliable in prediction of future business activity, perhaps the group as a whole may be. At least it is hoped that an interpretation of the various series in the light of their past behavior and economic significance may prove helpful in anticipating and identifying revivals and recessions in general business activity. See Geoffrey H. Moore, *Statistical Indicators of Cyclical Revivals and Recessions* (Occasional Paper 31) (New York: National Bureau of Economic Research, Inc., 1950).

[5] Charles F. Roos, "The Demand for Investment Goods," *American Economic Review*, Vol. XXXVIII, No. 2 (May, 1948), Papers and Proceedings, pp. 311–20.

their impact upon over-all output. Dependence is placed upon the responsible appraisal of the seasoned and mature economist. Through training, experience, and innate ability, the economist may have acquired a "feel" for judging the significance of both basic trends and important events.[6] People who possess this ability are few in number. Their judgments, however, have stood the test of time better than those which were the outgrowth of purely statistical procedures. Again, statistics is an aid to judgment and should not be confused with judgment itself.

The economist is likely to make a broad analysis of the various sources of demand for goods and services. There are at least four of these sources: consumer demand, capital expenditures, net export demand, and government expenditures. In reference to consumer demand, it is a question of the level of consumers' incomes, their available savings, their indebtedness, and their propensity to save or to go further into debt through purchase contracts. In reference to capital expenditures, it is a question of the probable level of new investments in manufacturing facilities of all sorts; the probable extent of inventory accumulation or depletion; and the probable level of capital outlays for housing, a consumer expenditure usually included in this category of capital expenditures. While export does not loom large in the demand picture, still it is an item which must be given attention in an over-all analysis of business conditions. Of course, the net export balance, i.e., the excess of exports over imports, is the figure which must be estimated.

Government receipts and expenditures play a much more important role than formerly. Inflationary pressure was considerably eased in 1948 by an excess of receipts over expenditures of approximately fifteen billion dollars for all governmental units. Obviously, such pressure can be created by heavy expenditures not covered by tax receipts. Because of military expenditures, social service activities, and public works programs, the proportion of total expenditures now made by governmental units constitutes a large part of the total, one estimated at about 17 per cent in 1949. Thus, in any attempt to estimate future business conditions, the likelihood of increases or decreases in government receipts and expenditures must be included.

The procedure followed is to break down the study of general

[6] Much of the information which the analyst needs is available from the *Survey of Current Business*, published by the U.S. Department of Commerce; the *Federal Reserve Bulletin*, published by the Board of Governors of the Federal Reserve System; and from the *Treasury Bulletin*, published by the Department of the Treasury. The data on building contracts awarded from the F. W. Dodge Corporation and the studies of contemplated expenditures for capital goods by McGraw-Hill Publishing Company, Inc. are often helpful. The *Monthly Letter on Economic Conditions, Government Finance* from the National City Bank of New York provides an excellent analysis of economic conditions, one which is held in high regard by many business economists.

business prospects into smaller segments and then to examine each as minutely as available data and information of a non-quantitative character will permit. A recapitulation can then be made in terms of favorable and unfavorable factors followed, perhaps, by an attempt to state the findings in terms of a percentage over and under the preceding year. Any great preciseness in the estimates is not possible, but an informed judgment can, nevertheless, be made as to the likelihood of a change in business activity for better or for worse in the immediate future. Although an estimate must be made for purposes of business planning, in a sense the job is never done. A continual awareness of the business climate is necessary, if adjustments, necessary to promote company interests, are to be made in time to be effective.

Estimate of Market Potential

The second step in this general procedure is to consider the effect of a contemplated change in business conditions upon the demand for the products of the particular industry in question. There are a number of ways of doing this, but the most obvious is to secure information on the industry's share in the gross national product in the past.[7] For instance, an inspection of figures on the sales of chemical and allied products industries shows that these sales moved closely with the level of gross national product, as would be expected. These sales in the past have been slightly over 4 per cent of the gross national product. When these data are corrected for trend—an important upward one for the chemical industry—at least a reasonably good estimate can be made of the probable sales of the chemical and allied products industries on the basis of an estimate as to the level of future business activity as a whole.

In certain cases, an estimate based upon the usual proportion which an industry supplies of gross national product may have to be modified to allow for factors which may affect a specific industry's sales substantially, but general business conditions only in so far as the particular industry influences the total. For instance, heavy sales of durable goods, such as tractors or other motor vehicles, in the previous two or three years may be indicative of a reduced demand for a forthcoming period. When dealing with data on industry sales trends, management is likely to feel some competence. It is in the area of business conditions that forecasts are considered more difficult and less reliable. In other words, management is likely to feel that, if a

[7] For a discussion of the gross national product method of estimating market potentials, see "Methods of Estimating Market Potentials," an address by S. A. Holme, General Electric Company, before the Spring Conference of the American Marketing Association, Philadelphia, June 8, 1944.

good evidence of the potentiality of different parts of the market for that product. This assumption, of course, denies the need for quantitative market analysis, for other than new products, i.e., for an *objective* standard of sales performance. The validity of this assumption depends, in part at least, on further assumptions; that the company has covered the entire market thoroughly, that all parts of the sales organization have been uniformly successful, and that competition has not been stronger in some areas than in others. Even if a company is in a quasi-monopoly position, these assumptions are not tenable, particularly if active competition is encountered from substitutes. Only by sheer accident, in a competitive situation, would an individual company's sales spread themselves over various parts of the market in the same manner as industry sales. A company is likely to be strong in some areas, weak in others, and it is to determine relative position that objective standards of performance are needed.

Noncompeting Product Sales. Sales of noncompeting products have at times been used as an index of the relative potentiality of the different parts of the national market for a particular product. In an early study, eight companies which manufactured and/or sold toilet articles, fountain pens, gum and candy, brushes, soap, photographic supplies, life insurance, and periodicals co-operated by furnishing sales data broken down along the same territorial lines.[8] These data were grouped to determine the distribution of sales of these companies over the market. This distribution was to serve as a standard of performance for each company which cooperated. If, for instance, the State of Ohio took 8 per cent of the group sales, this was considered good evidence that it likewise should take a like percentage of the sales of each manufacturer, whether of brushes, photographic supplies, or the other products. The reasonableness of this procedure depends upon the likeness of the products included. If the factors which influence purchase are the same for all of these products, and if the sample of companies is sufficiently large to produce the statistical characteristic of reliability, then the procedure has some merit. But it is more than likely that the factors which influence purchase would not be the same for all of the products included. Thus the sales of an individual product should not be expected to spread themselves over the market in the same manner as the group.

Magazine Circulation. Some of the publishing companies have suggested the use of their own magazine sales as a satisfactory index of potential demand for other products. It is claimed that magazine circulation parallels the market for other products, since magazines are purchased primarily by people in the higher income levels who have both the ability and the willingness to purchase. Numerous

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[8] See Everett R. Smith, *Sales Quotas Based on Market Analysis* (Sales Executives' Series, No. 34) (New York: American Management Association, 1926).

studies have been made to substantiate this relationship. The Curtis Publishing Company forms an index by combining the sales of its three publications—*The Saturday Evening Post*, the *Ladies' Home Journal*, and *Country Gentleman*. Each sale is referred to as a Curtis Unit. The circulation of each of the three publications is combined for each state, and the proportions which state circulation figures bear to total national circulation is determined and used as the index. The proportion of the combined circulation which is taken by each county, city, and town can be computed in a like manner. In 1948, New York State took 9.74 per cent and Michigan 4.43 per cent of the combined national circulation.[9]

Curtis then compares this index of circulation to other indexes to show their close relationship. For instance, it was shown that, for the upper 25 per cent of the counties in the United States in Curtis circulation, 80.1 per cent of the Curtis units were sold, and that these counties contained 80.2 per cent of persons with some high-school education, 86.5 per cent of the homes with mechanical refrigeration, 78.4 per cent of automobile registration, 74.7 per cent of the number of white families, 85.9 per cent of drugstore sales, 84.5 per cent of food group store sales, and 81.0 per cent of grocery store sales.[10] It was also indicated that there was a very high correlation between Curtis circulation and the distribution of shopping goods. Under the general heading "Curtis Circulation as a Measure of Purchasing Power," it was stated, "We have tested many published indexes and considered almost every factor available in a statistical form. Of all these measures studies, Curtis Units are a more adequate measure of market opportunity than any other factor."[11] Nor was this statement qualified by reference to certain types of product.

The Crowell-Collier Publishing Company has likewise developed an index from circulation of its magazines and has shown that this index closely parallels consumption.[12] Both Curtis and Crowell-Collier have pointed out that sales and consumption are not the same quantitatively in areas which are dominated by large shopping centers, and that, in order to secure accurate consumption data, sales of such centers have to be allocated. Still, this leaves some doubt regarding the use of a circulation index for certain purposes. While it might be usable for the allocation of advertising, an index of sales, rather than one of consumption, would be needed, if the purpose was to allocate solicitation effort through calls on dealers. For any promotional effort directed at dealers, rather than at consumers, a useful index of relative

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[9] Curtis Publishing Company, *Sales Opportunities* (Philadelphia, 1948), p. 5.

[10] Ibid., pp. xv and xvi.

[11] Ibid., pp. xxi and xxii.

[12] The Crowell Publishing Company, *The National Market and Crowell Publications, 1933* (New York).

potential demand would be one which indicated demand *at the point of final sale*, not at the point of use or consumption.

In an appraisal of an index based on magazine circulation for use as an indication of relative potential demand for other products, the burden is on the defense. It is true that the circulation of the well-known national magazines varies directly with the level of income. In a study by the Crowell-Collier Publishing Company, it was shown that families with the highest income rating were magazine readers to the extent of 98.4 per cent, whereas families with the lowest income rating were readers only to the extent of 52.3 per cent.[13] Moreover, magazine reading decreased with each successive downward step in income level. Thus an index of magazine circulation is at least a rough measure of income levels.

Any appraisal of an index based upon magazine circulation for use as an indication of relative potential demand for other products should emphasize that such an index is not equally acceptable for all products. It has been shown that magazine circulation varies directly with the level of income and roughly in proportion to it. Thus an index of magazine circulation is at least a rough measure of general purchasing power. Furthermore, it is selective in yet another way, for the better magazines go to family groups which are more literate, which have had greater educational opportunities, and thus are able and willing to purchase certain products. Some weight should likewise be given to the argument that the potential market should be in accordance with circulation because advertising has created the market by arousing a desire for advertised products. It is a fact that circulation indexes do not suffer from the disadvantage that the data used are not recent. Rather, circulation figures are up-to-date, they are accurate, they are available in convenient form, and they represent an actual sales accomplishment. Finally, there are commodities which appeal to the same general types of individual with the same level of purchasing power as do certain magazines, and for these commodities a circulation index may provide an excellent measure of potential demand.

It should be recognized, nevertheless, that magazines are only one product among many, that they differ among themselves, and that there is no compelling reason why the sales of any one magazine or of any small group should closely parallel the sales of every other product. Population characteristics, such as high purchasing power and educational level, which lead to the purchase of certain magazines, may even have a negative influence on the purchase of certain other products which are designed to appeal to lower income groups. Some products are sold primarily to farmers, others to urban population.

[13] *1939 Crowell-Collier Circulations* (New York: Crowell-Collier Publishing Company, 1940), p. 11.

For some products climate may be the most important determinant of sales. This leads inevitably to the conclusion that while magazine circulation may offer a good index of relative potentiality for some products, it does not for all. It depends solely on whether the same factors condition the purchase of magazines as of the other product, whatever it may be.

Census Data on Sales in Retail Outlets. For many years, those in charge of the censuses have been attempting to secure data on the sale of individual commodities from retail dealers, but without much success. In the 1939 census, however, through the use of the so-called block plan, they were much more successful. Better than four-fifths of the schedules returned reported the commodity sales data requested, and about half of the schedules were found acceptable for use in compiling commodity sales data. These results were much better than expected and constituted a major advance in the acquisition of sales data.

In the *Census of Business: 1948,* retail stores were broken down by type into fifteen major groups. Some of those in which there were reasonably clear distinctions were further divided, so that data was secured for twenty-two different kinds of retail business. These types of business are called blocks.[14] For each of these, a product breakdown of sales was provided in accordance with the degree of detail in which retailers could be expected to furnish the information. A somewhat wider product classification within the blocks than in the 1939 Census was provided. Block P, shown in Figure 2, was for the lumber, building materials, and hardware group.[15]

From this schedule, some idea may be gained regarding the breakdown of sales data by commodities. In some instances, sales data are available by specific commodities—bicycles, for instance—but in other instances the data are available only for classes of commodities. These are, by far, the most comprehensive data on sales at retail ever collected, despite the fact that they are not as detailed by specific commodities as the market analyst might wish.

The foregoing remark suggests the inadequacy of these data for use by the individual company. For instance, a manufacturer of high-grade household furniture, as distinct from that of low or medium grade, would like to know the distribution of sales of his product over the market, whereas the census data show sales of "Furniture,

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[14] *Census of Business: 1948,* Form 21, Department of Commerce, Bureau of the Census, Washington, D.C. The blocks are as follows: Food, Tobacco, and Liquor Stores (four blocks); Eating and Drinking Places; Drug Stores; Gasoline Stations and Auto Accessory Dealers; Apparel Group; General Merchandise Stores; Variety Stores; Department Stores and Mail-Order Houses; Furniture—House Furnishings Group; Household Appliances, Radios, Music Group; Jewelry, Luggage, Sporting Goods Stores; Automotive and Farm Equipment Dealers; Lumber, Building Materials, Hardware Group; Second Hand Stores; and Other Retail Stores (five blocks).

[15] *Ibid.,* p. 9.

FIGURE 2.—CENSUS OF BUSINESS: 1948, RETAIL SALES: BLOCK P

LUMBER, BUILDING MATERIALS, HARDWARE GROUP

P ☐ Retail lumber and building material dealer
☐ Building material dealer without lumber
☐ Hardware store
☐ Paint, glass, wallpaper store
☐ Electrical supply store
☐ Heating and plumbing equipment dealer

		Key
Softwood lumber (rough-sawed, dressed and worked or patterned)	$	1–2
Hardwood lumber (exclude hardwood flooring)	$	3
Hardwood flooring	$	4
Plywood (softwood and hardwood)	$	5
Other lumber products such as millwork and prefabricated items	$	6
Building materials, exclusive of lumber and lumber products	$	7
Hardware	$	8
Paint, glass, wallpaper	$	2–2
Hay, grain, feed, seed, fertilizer, other farm and garden supplies	$	3
Farm equipment, implements, and machinery	$	4
Coal, wood, and fuel oil	$	5
Major household appliances	$	6
Small appliances, kitchenware, and other housewares	$	7
Furniture, floor coverings, draperies, shades	$	8
Heating, plumbing, and air-conditioning equipment and supplies	$	3–2
Lighting, electrical supplies (except household appliances)	$	3
Other sales	$	4
Total, per Inquiry 3 (c)	$	

household (except office)." It is possible that the territorial distribution pattern for furniture under the census classification would be quite different from the actual pattern for either high or low grade furniture. Other classification units are even broader; for instance, coal sales are included under the classification, "Coal, wood, and fuel oil" in Block P—"Lumber, Building Materials, Hardware." Sales of fuel oil are included separately in Block G, "Gasoline Stations and Auto Accessory Dealers." If a producer is interested in the territorial distribution of coal sales only, these data would not be of much value. In the case of fuel oil, it would not be possible to get accurate sales data, since they are associated with coal and wood under one block.

Take, for instance, a product such as stoves. Presumably, the sales would be reported under the general classification of household appliances, which appears in seven different blocks. The data, if collected under a finer classification, might show the sales of stoves and what proportions were gas, electric, coal, wood, and combination

stoves. This information is important because of probable variations in sales by type of stove between territories. Yet the census data on many household appliances totally obscure the sales of certain products and types within product classes. Such data, if made available, would at least furnish a rough measure of what could be expected in sales of different parts of a manufacturer's line in subsequent periods. Furthermore, investigation might help determine whether or not the factors which caused these variations in sales were likely to change. From these remarks, it should be evident that these data, although more comprehensive than in previous censuses, still leave something to be desired for use by individual manufacturers.

The usefulness of census sales data for determining either the absolute or relative potential market is lessened because these figures are collected infrequently, because they are not available quickly after collection, and because they are incomplete. They soon grow old and, as conditions change, both total annual sales and the distribution of those sales over the market may change also. Censuses of Business were taken bi-annually during much of the 1930–39 decade. No census was taken, however, between 1939 and 1948 and, because of changes occasioned by the war, the 1939 data became valueless.

All sales are not included—only those from retail outlets. Also, all retailers do not keep their records in such form as to report on the requested breakdown basis. For these reasons, the data is probably much more accurate on a relative basis than on an absolute one. In other words, there is more reason to believe that all sales are not reported than to believe that inaccuracy in reporting and sales other than through retail outlets are particularly prevalent in some locations.

Of course, there is some stability in relative purchasing power under normal conditions between various parts of the national market and in consumer expenditure patterns. The territorial sales pattern of semiluxury products with a stabilized demand and of necessities may persist for some time without substantial change. Still, there can be little doubt that, as sales data become older they become less useful for purposes of predicting potential demand. Perhaps we shall have bi-annual censuses in the 1950–59 decade as we had in the 1930–39, but this is, at present, conjectural.

It should not be concluded from the foregoing comments that these sales data are not useful, but rather that they are not so useful as they could be if they were more detailed, more frequently available, and more fully and accurately reported. They can only be as detailed and accurate as the retailers can or will report their sales. They can only be as up to date as funds available for census-taking will permit. Thus it is largely a question of improved record-keeping in retail outlets and of allocating more funds to census work.

Individual Product Sales. The shortcomings of the types of sales data which we have considered previously center around two conditions: namely, their lack of completeness or detail, and their lack of ready availability soon after sales are made. For a few commodities, much more complete data are gathered and the elapsed time between sales and the availability of data is surprisingly short. For both completeness and timeliness there is no rival to new car sales data which are collected by R. L. Polk & Co. for the automobile industry. Because of the registration and licensing system for motor vehicles, a knowledge of sales and where they were made becomes public property. Approximately thirty days after the end of each month, sales data by make and by those models which each manufacturer wishes to disclose, by post office which the buyer gives as his address, and, through accumulation, by counties and states, becomes available. Data on truck sales is furnished for seven size groupings based upon truck weight plus the indicated load weight. A few days later the data can be analyzed, and comparative data by makes and models can be furnished for dealer areas and sales territories.

A manufacturer will know, for instance, that in a certain county in Iowa during a previous month he sold and delivered so many cars, but, through new car sales data, he likewise will know how many cars were sold in total and how these sales were distributed among all manufacturers. He can determine just how effective various parts of his sales organization were in competition during a previous month and for the year to date. Trends in competitive cars can be ascertained. Thus he has attained one of the important objectives of quantitative analysis. In addition to data on past sales and current sales, the automobile manufacturer has data on registration; that is, the number of cars in use in each year. No other industry has such complete data for work in quantitative analysis.

Individual product sales data, if available, come from one of four sources: namely, a public census; as a by-product of a licensing, inspection, or tax system; trade associations; or a private service organization. It was previously noted that some data on sales of individual products were secured in the decennial censuses. New car sales data, as well as data on real estate transfers, building permits, and contracts awarded, proceed from the second source. Data on the sales of many products are compiled by trade associations; for instance, the Office Equipment Manufacturers Institute assembles data on orders accepted in 412 counties in which about 90 per cent of all sales are made. These are assembled into totals for trading areas. Sales data are likewise assembled on certain household durables by trading areas. Moreover, some of the monthly consumption data published in the *Survey of Current Business* for a wide variety of product classes and specific products come from this source. Unfortunately, these data, in many

instances, are not available by political divisions or trading areas. This constitutes one weakness of trade association data which suffer from other weaknesses likewise. They are very likely to be incomplete, for all producers in an industry are not likely to co-operate. Furthermore, their accuracy may be questioned on two counts. Companys' records may not be kept on the same political divisions or trading areas, and thus estimates must be made on more or less arbitrary bases. Moreover, it may be very difficult to determine where sales are actually made when a company sells through independent jobbing organizations which cross political division lines with their sales efforts. While the information is on jobbers' invoices, still it is doubtful whether these are analyzed to get the data. Under conditions of more direct sale through branches or company-owned retail outlets, the data furnished would probably be more accurate.

Collection and compilation of sales data by private organizations is of comparatively recent origin. In 1933, the A. C. Nielsen Company, of Chicago, started to collect sales data directly from retail outlets on sales of drug items. In 1934, this service was extended to food items. Now data is collected on a bimonthly basis on approximately 2,000 items from 6,000 grocery, drug, department and country general stores located in 750 cities in the United States, Canada, and the United Kingdom. These retailers make their records available for audit by company representatives, and data are secured on actual sales to the public. Retailers are selected in such a manner as to form an adequate sample—that is, it includes both independent and chain stores, large and small stores, and those in urban, small-town, and rural sections. Thus the sample is at least expected to have the statistical attributes of reliability and proportionality. The Company claims that, through care in selecting and auditing stores, the sales figures are 98 per cent accurate. The Nielsen service is sold to manufacturers just as financial service is sold to investors. Companies pay from $15,000 to $600,000 each year for the service.[16]

The inadequacies of most sales data, even a manufacturer's sales data on his own products, are overcome by data such as those furnished by the *Nielsen Index*. A company such as General Foods Corporation, which sells entirely through wholesalers and chains, does not know, nor can it know, from its own sales records either where or when its products are sold to consumers. General Foods does have a record of its own sales to all types of buyers, and thus can deter-

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[16] This information is taken from "Nielsen Food-Drug Index, A Condensed Description," *The Nielsen Researcher* (Chicago: A. C. Nielsen Company, January, 1947), pp. 32–36. See also, *Solving Marketing Problems of Drug Retailers and Manufacturers* (1939) and *Advances in Scientific Marketing Research* (1944), addresses by Arthur C. Nielsen, President, A. C. Nielsen Company, Chicago.

mine original destination of product. But, in order to determine the location of sales to final consumers, it would be necessary to have data on wholesalers' sales to retailers and to other purchasers at wholesale, and chain warehouse allocation of product to chain stores. Furthermore, a manufacturing company's sales data do not reveal actual sales to consumers since inventories in the hands of wholesalers, chains, and retail outlets may fluctuate greatly. It may appear that sales are declining, whereas sales to consumers may be increasing. Under such a condition a manufacturer's sales will also increase later, but in the meantime he may be misled as to the trend of sales. If a company sells directly to retailers, as does Standard Brands, Inc., it can tell with much more certainty when and where sales to consumers are made. Obviously, data such as those furnished by the Nielsen Index are of greater value to those concerns who use an indirect channel of distribution.

These data have the virtue likewise of complete detail. They provide information, for instance, on the sales of each size of each manufacturer's brand of corn flakes, not just on the sales of prepared breakfast cereals. Thus a manufacturer can tell just how his products are faring in competition in each part of the market, in different types of stores, and in different types of communities. Through an analysis of the data given in the bimonthly reports, he can determine not only his position at any one time but also trends in competitive effectiveness. He can also tell whether efforts which have been taken to overcome competitive weakness have been successful or otherwise. Subsequent data should reveal the answer, although other factors may likewise have influenced the result and will have to be allowed for. From these remarks, it should be evident that the data are of particular value as they deal with specific products.

There is much reason to believe that these data are sufficiently detailed, that they are collected with sufficiently frequency and with sufficient care to give a manufacturer the information which he desires. The usefulness of the data to manufacturers is amply attested by the number and standing of Nielsen's clients and the amount which they pay for the service. Whether or not the data are complete, in the sense that the sample used adequately represents the whole market, is open to question. An analyst of one of the large concerns which uses the Nielsen service, when considering both Nielsen data and that from Industrial Surveys National Consumer Panel (which will be discussed shortly), said "When I say these methods give reliable results on the measurement of consumer purchases, I necessarily must speak somewhat broadly. I do not mean to leave the impression that the store inventory method or the consumer panel, either one, is perfect; certainly not to the degree some of us perfectionists would

like. But they give us data on consumer movement which we feel is reliably useful in evaluating the current market situation."[17] This writer points out that Nielsen and Industrial Surveys data cannot represent the whole market, for a substantial part of company shipments never see the inside of a store or a home. They go directly to institutions and restaurants. General Mills, Inc., has been able to test the accuracy of the Nielsen Food Index to its own satisfaction, at least. Its conclusions are as follows: "Over a seven year period, we estimate Nielsen has (*a*) Overstated grocery store sales of one product by 0.385%, (*b*) Understated another by 5.3%, (*c*) Understated two by 9.0%, (*d*) Understated a fifth by 6.5%."[18] While these percentages, other than the first, are not inconsequential, the fact remains that there may have been some error in the testing and, more importantly, that the figures are considered "reliably useful." But, inasmuch as the market itself changes and the retail stores which serve the market change likewise, it is highly necessary both that the sample be adequate in the first place and that it be watched closely. Otherwise error will creep in, and the usefulness of the data will be greatly impaired.

The *Nielsen Food and Drug Index* gives much information about potential demand, both relative and absolute. When a company relies upon industry sales rather than its own past sales for the determination of relative demand it is relieved of the assumption that *one* company has covered all parts of the market thoroughly and has been uniformly successful. This assumption is much more tenable for the industry as a whole than for any one company. Furthermore, the question of competitive position as a factor influencing the distribution of sales is withdrawn when industry sales are substituted for individual company sales.

Past sales of product in such lines as food and drugs are more indicative of sales in the near future than those lines in which the product has durability. Product is purchased and used quickly. Moreover, many units in these lines are considered necessities and changes in consumer purchasing power do not greatly prejudice sales. So, through knowledge of the past distribution of sales over the market, a manufacturer has good evidence concerning the distribution of future sales; he also knows the trend of sales in each part of the market, and this trend can be taken into consideration in estimating relative potential demand. In addition, he must estimate the share of these potential sales which he will get. At least he will have an estimate of total potential sales, he will know the trend of his sales in relation to total sales, and these data, together with a knowledge of contem-

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[17] An address by John S. Monroe, Sales Analyst, General Mills, Inc., "The Measurement of Consumer Purchases," *December Conference, American Marketing Association*, New York, 1949, p. 3.

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

plated expenditures for promotional work, should allow him to make a reasonable estimate of future sales.

Individual Product Purchases. Some private concerns, notably Industrial Surveys Company, Inc., and some of the large advertising agencies, have developed consumer purchase panels. Through inducing an adequate sample of consumers to record all purchases of merchandise of certain types, an index is developed of consumer purchases in contrast to one of retailer sales. While, admittedly, the problems connected with getting and maintaining an adequate sample of consumers and accurate and complete reporting are most difficult ones to solve, the data secured have great significance because the user is identified. Moreover, the amount of product used by each family which purchases and the proportion of all families which use the product can be determined. If the type of user can be characterized, and if some idea can be secured of maximum quantity use, the analyst has much greater possibility of estimating the potential market. It should be recognized that data on retail sales do not furnish this type of information. Retail sales of a certain amount could comprehend sales in small quantity to many people or large sales to a few. And the type of buyer is unidentified. Information such as this is needed to formulate estimates on potential demand.

On a shorter experience with the Industrial Surveys Index data, General Mills, Inc., found that

> (1) On one product, it overstated by 1.5%, (2) Four related products were overstated by: 17.4%, 18.6%, 19.3%, and 20.1%. These products, it may be stated, are seldom bought by the less literate people of certain sections, probably accounting for the overstatement. However, the volume relationships are nearly exact between the four products. (3) Two other related products are overstated by 7% and 9% respectively, and the trend reports are amazingly correct.[19]

Again, it should be stated that the company found these data very useful despite evidences of inaccuracy.

Consumer Expenditure Data. The use in quantitative analysis of consumer expenditure data was much discussed in the late thirties, for new and more comprehensive data than previously existed were then made available. A group consisting of the Bureau of Home Economics, U.S. Department of Agriculture, the Bureau of Labor Statistics, in co-operation with the National Resources Planning Board, the Works Progress Administration, and the Central Statistical Board planned and carried forward a comprehensive study with WPA funds. Information on family expenditures was obtained from approximately 60,000 families living in 51 cities, 140 villages, and 66 farm counties. Data from 42,000 of these families were utilized in

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

preparing estimates of expenditures. Care was taken in the choice of samples so they probably possess the statistical requisites of reliability and porportionality. Studies were subsequently published by a number of the cooperating organizations. The Department of Agriculture, in co-operation with the WPA, published a series of bulletins, some of which featured expenditures by regions, others by types of product.[20]

In the various studies, expenditures are broken down by income classes for food, housing and household operation, clothing, automobile, medical care, recreation, furnishings, personal care, tobacco, transportation other than auto, reading, education, and other items. In addition, the amounts used for gifts, personal taxes, and for savings are shown to indicate the complete *expenditure and saving pattern.* In other studies for specific cities, these expenditures are broken down much further.[21] For instance, the item for clothing expenditures is broken down between those made by husband, wife, and other members of the family as a group. In addition, expenditure patterns are shown by occupational groups and by family types.

Since World War II the Bureau of Labor Statistics has made two studies of consumer expenditures.[22] Expenditures are broken down into 16 classes and incomes into 9 classes, with under $1,000 and over $10,000 at the ends of the range. While these are the first postwar guides to the consumer expenditure pattern, there was no pretense of securing an adequate sample for either the total universe or the income divisions. The study did indicate that consumers were using just about the same proportions of a larger income for various types of expenditure in 1948 as they used of a much smaller income in the mid-thirties.

The usefulness of these data to the business executive when he attempts to answer pressing questions in regard to product design, how much he can expect to sell in oncoming periods, and what he should expect in sales volume from different parts of the market, can easily be overstated. Admittedly, there is much in the studies to condition his thinking. The facts revealed may alter some misconceptions

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[20] See *Family Income and Expenditures* (Part 2, Family Expenditures, Consumer Purchases Study, U.S. Department of Agriculture, Miscellaneous Publication No. 396) (Washington: U.S. Government Printing Office, 1940); *Family Expenditures for Housing and Household Operation* (Consumer Purchases Study, U.S. Department of Agriculture, Miscellaneous Publication No. 432) (Washington: U.S. Government Printing Office, 1941); National Resources Committee, *Consumer Expenditures in the United States* (Washington: U.S. Government Printing Office, 1939).

[21] See *Family Expenditures in Chicago, 1935–1936* (Bulletin No. 642, Vol. II, Study of Consumer Purchases, Urban Series, U.S. Department of Labor, Bureau of Labor Statistics) (Washington: U.S. Government Printing Office, 1939).

[22] See *Consumer Spending: Denver, Detroit, and Houston, 1948*, U.S. Department of Labor, Bureau of Labor Statistics (Washington: U.S. Government Printing Office, 1949).

about the size of markets and the relationships between consumer expenditures. Both the income and the expenditure data may help a manufacturer to define the market for his product a bit more closely than before. But the use of these data is not a panacea for all of the difficulties involved in quantitative analysis of markets.

The data have many shortcomings in relation to their use by business concerns for determining the extent of the market. They do not show expenditures in sufficient detail. A manufacturer may be interested in expenditures for certain price classes of rugs or shoes rather than for rugs and shoes as a whole.[23] Furthermore, he would like to know the distribution of expenditures which will be made during immediately subsequent periods rather than those which were made in an annual period some years past. Also, if studies of expenditures are not made at relatively frequent intervals, there is little possibility of securing information on trends in income use. Quantitative data which showed the diversion of income to automobile transportation *while that diversion was taking place* would have been of great interest to producers of furniture, building materials, and other products, the demand for which presumably decreased as an indirect result of automobile purchase and maintenance. Finally, the data on expenditures are not sufficiently comprehensive to show variations in expenditures between different parts of the market other than over broad regions and for the cities in which data were collected and on which special reports were issued. For these cities, comparisons are possible which may give some indication as to relative demand. But for the manufacturer who is attempting to determine market potentials for each state, for trading areas, or for his own sales territories, these data are of limited usefulness.[24]

If data on the distribution of consumer's expenditures by income classes are available, if they are broken down sufficiently so that a manufacturer can determine the proportion spent on the type of product which he produces, and if he has information on the number of people in each income class by territories, it is possible to compute a rough index of past sales. Instead of securing information on past sales directly, as in the automobile industry, it is secured by relating a pattern of expenditures to income distribution. Moreover, the development of an index of past sales for some products—for instance, clothing items and certain types of household furnishings—is important because no such index has been secured previously by other means.

[23] Joseph H. White, "Measuring Local Markets," *Journal of Marketing*, Vol. XII, No. 2 (October, 1947), pp. 220–33.

[24] For a discussion of this question, see Harry R. Tosdal, "Bases for the Study of Consumer Demand," *Journal of Marketing*, Vol. IV, No. 1 (July, 1939), p. 315, and Donald M. Hobart, "The Value of Consumer Purchase Surveys to Management," *Journal of Marketing*, Vol. IV, No. 1 (July, 1939), pp. 23–30.

Two noteworthy attempts have been made to establish market potentials by relating income data under a size classification to consumer expenditure patterns.[25] The expenditures patterns used, in each instance, were those of the government study previously mentioned, which was made in the early thirties. In neither study is information given on the exact source of income data, nor on the manner in which income distribution by size classes and the numbers of income receivers in each may have been estimated from source data. Perhaps the source of the data was the Census of 1939, in which information was collected on wages and salaries received. Data on income from all sources is now being collected from a sample of every fifth family for the 1949 census.[26] New and better data therefore will soon be available on income, but there is no large study in progress on consumer expenditure patterns. While there is some indication that expenditure patterns do not change greatly, still those of the early thirties are probably not at present very reliable. Of course, spot samples such as those of the Bureau of Labor Statistics in Denver, Detroit, and Houston can be taken, and are informative, but their reliability is in doubt because of the meager sample covered.

In the study by Joseph H. White, studies were made of the relationship between income, frequency of purchase, prices paid, and the resulting expenditure for individual commodities—again probably on a sample basis. Despite doubts as to the adequacy of the underlying data, these studies merit attention, particularly the one by Mr. White, for he grappled with the problem of securing data on market potentials for specific products usually included in larger categories, and for price classes within lines. Moreover, he attempted to modify his estimates by the influences of location, or, as it was termed, the trading center "pull," and for temperature. For the so-called soft lines, in which there is little product standardization between producers and little if any data available on industry sales, the development of procedures for determining market potentials should be welcomed by market analysts.

REVIEW AND DISCUSSION QUESTIONS

1. Distinguish carefully between the meanings of the terms (1) market potential, (2) sales potential, (3) sales quota, (4) marketing research,

[25] Joseph H. White, *op. cit.;* also Serge Morosoff, *Consumer Purchasing Potentials* (Chicago: Dartnell Corporation, 1948).

[26] While the sample is sufficiently great to attain the attributes of reliability and proportionality, still these data will always be somewhat suspect because they were often secured from the housewife rather than from the wage or salary earner, the usual unwillingness to divulge income data, even if the amount thereof is known exactly, and the meager training in interviewing techniques of those individuals who actually questioned respondents. While the absolute data may thus be in error, the data should be reasonably accurate from the relative point of view.

(5) market research or market analysis, and (6) sales analysis. (See "Report of the Definitions Committee," *Journal of Marketing*, Vol. XIII, No. 2 [October, 1948], pp. 202–17.)

2. What reply would you make to an individual who was fully aware of the difficulties of forecasting business conditions and who concluded that, in view of these difficulties and the likelihood of questionable results, no effort should be made along these lines?
3. Note the step-by-step procedure followed in the market investigation for motivators. Under what circumstances is this type of approach feasible for determining the extent and location of the market? Suggest alternative or supplementary means for securing the desired information. What questionable assumptions were made in this study?
4. What are the steps involved in the over-all forecast procedure if it is carried through to its logical conclusion? What is the essential difference between this procedure and the individual unit forecast procedure? Why may it be desirable to follow both procedures concurrently?
5. Discuss the "lead-lag" approach to the problem of business forecasting. What weaknesses does this approach have when applied to the problem of determining market or sales potentials?
6. Describe the procedure which was termed the "sound-judgment approach" to the forecasting of general business conditions.
7. Prepare a brief statement, perhaps in outline form, of the tacit assumptions which are made in reference to each index of sales and purchase data when used as a means for breaking down sales-potential figures to various parts of the market. Consider the validity of these assumptions when the indexes are used in reference to potentials for different types of product.
8. What evidences of growth in the accumulation of marketing data do you discern in the previous discussion of index methods? Comment particularly on the data furnished by various publications, the census, A. C. Nielsen Company, Industrial Surveys Company, Inc., trade associations, and various government agencies.

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Chapter IX

DETERMINATION OF MARKET POTENTIALS, SALES POTENTIALS, AND SALES QUOTAS (*Continued*)

Product-in-Use Data

SOME indication of the potential market, both for a product itself and for closely associated products, can be secured from products-in-use data. Fortunately, in the past two or three decades, more data on consumers' possessions and on equipment in industry has become available. Perhaps the assembly of data was prompted in part by the demonstrated usefulness of automobile registration data. In 1934, the U.S. Department of Commerce sponsored a real property survey of 64 urban counties. Data were secured on housing and on heating, lighting, cooking and refrigeration equipment. Trade associations and publishing companies have also been active in accumulating product-in-use data. For instance, data were secured on the number of families owning radio sets by counties, and inventories have been made of machine tools in the hands of industrial concerns. Data have frequently been collected on equipment ownership in limited areas. For instance, within the confines of the areas which they serve, gas and electric companies often find it to their advantage to take inventories of the household equipment in which gas or electricity is used. Information on the extent of market saturation, as well as on the extent of the replacement market, is thus secured.

As a result of the interest shown in the data collected on consumer possessions during the 1930–39 decade, additional information on a nationwide basis was secured in the 1940 census. Again, in the 1950 Census of Population and Housing, information was collected. Data is available on heating equipment, refrigerators, radio and television, and kitchen sinks in the possession of consumers. These data are at least reasonably accurate and will undoubtedly prove of value to business enterprises.

Manufacturers of office and factory equipment are likely to keep records of purchase and ownership of their products by customers. Data may then be accumulated by a manufacturer on the number and/or value of his products in use by territories. They may not be entirely

accurate because of unreported removals between territories or because of abandonment, but service records may be helpful for correcting these ownership records. Such data are not the equivalent of a product inventory because they include the product of only one manufacturer. Nor is it likely that the figures are correct relatively, as between territories, for a particular concern has probably been strong in some territories, weak in others. Thus the data are not likely to provide a good indication of market potential for replacement of machines, but it may be a good indication of sales potential for the company because of the loyalty factor.

Now trade associations are collecting sales data by trading areas for office equipment and for many items of household durables, such as refrigerators and water heaters. These data eventually will furnish evidence of the product in use which has been manufactured by the companies supplying the data. As a very large proportion of the output of these products is reported and thus included, a few years hence good data on product in use will be available to all members of the associations. However, if data are not assembled either by governmental agencies or by trade associations, a company may be forced to use the direct evaluation method previously discussed. Suppose, for instance, that a company wanted to know the number of typewriters in use in each of its territories. By sampling, it would be possible to build up estimates. For instance, a count might be made of the number in use by banks of various sizes. Then, with data on the number of banks of each size and a knowledge of their location, it would be possible to project the data to all banks and thus to secure estimates of the number of typewriters in banks in each territory. The same procedure could be followed for other types of users, thereby arriving at total figures.

When product-in-use data are used as an indication of the potential demand for the same product, certain assumptions are made. By the very fact of present ownership, continuing ownership is assumed and thus eventual purchase for replacement. If one county, for instance, has double the automobile registration of another county, it is assumed that it likewise has double the market potential. When the market for a product has become largely saturated, there is logic to this assumption. The reason is that all parts of the market have been developed thoroughly, and individuals who are purchasing for the first time are few in number. Perhaps this is also a reasonable assumption to make in the initial stages of market development for a product. At that time, there may be opportunity for sales in all parts of the market. No part is saturated with product. The sales territory with the greatest immediate potentiality for sales may be where product has already been sold because it is being observed in use and because of word-of-mouth advertising. Perhaps the markets for home air-

conditioning and garbage disposal units are in this position at the present time. In the midstages of market development, however, the amount of product in use may be a very poor indicator of the potential market. It may be assumed that all parts of the market have been developed equally in relation to the market potential in each. It is more likely, however, that market development has been spotty, that some parts of the market are relatively oversold, and others are relatively undersold. If this is the case, objective factors which characterize the population, rather than product inventory, should be used to determine market potentials.

The assumption that the size of the potential market varies directly with the amount of product in use does not hold good for any one year or for any one manufacturer's product. If a product is highly durable, heavy sales in any one period preclude sales in immediately subsequent periods. As the average age of the units of product in use becomes less through new purchases, the likelihood of additional sales diminishes. Conversely, as average age increases, the likelihood of immediate sales increases, too. For a particular manufacturer, the extent to which his product is in use is evidence of a potential market only to the extent that his product has consumer loyalty. If there are 1,000 Buick cars in a given city, and if 80 per cent of the users remain loyal in that they habitually drive Buicks, sooner or later there are likely to be sales of at least 800 Buicks. When these sales will be made, however, depends upon how recently cars in use have been purchased, and when owners will be able to purchase new models. The important facts which complicate the making of estimates are that purchase *can* be deferred and that owners *may not* remain loyal. While registration data are useful, still their use does not solve all the problems of estimate in the automobile industry. Nor will a knowledge of product in use do so for other industries. Only when the market for a product has been thoroughly cultivated and has reached a saturated condition can product in use data be used with any great assurance as an indication of potential demand, and only then with the reservations which have been suggested.

Corollary Data

Product-in-use data for a given product are also of value in estimating the potential demand for associated products. It is assumed—and this is a logical assumption within limits—that the presence of one product will create a market for others, and that the demand for the latter will be in proportion to the presence of the former. Many illustrations come to mind. Automobiles need tires, gasoline, and batteries if they are to be used. Radios need vacuum tubes, and dairy cattle need prepared dairy feeds. In each instance, there is direct

causal relationship between the presence of a physical entity and the sale of associated products. But it does not necessarily follow that the potential market for the associated product is in direct proportion to the presence of another product as in the case of radios. Two territories might have the same number of radios, but one might have a much larger proportion of ten- and twelve-tube sets, whereas the other may have mostly seven-tube sets. Obviously, under such circumstances, the potential demand for tubes would not vary directly with the number of radios. Registration data for motor vehicles are broken down between trucks of different capacities and passenger cars of different makes so that the difficulty suggested in the case of radios is obviated. The tire companies use registration data extensively in determining how much one territory should purchase in relation to others but the composition of registration is taken into account. For other products the inventory data do not disclose size and type and thus their usefulness for determining potential demand for associated products is more limited.

There are other important limitations on this method which should be recognized. It may be that each unit of product, such as the radio or automobile, is used more extensively in some sections of the country than in others. If such conditions prevail, the number of radios or automobiles in one section relative to others is not conclusive evidence of the likely demand for vacuum tubes or tires. Climatic conditions may affect the durability of some products and thus the need of repairs or replacements. Environmental conditions of other sorts may be of importance. For instance, the heat in the southern states and poor roads there or elsewhere may have an effect on the demand for tires and other replacements for automobiles. Factors such as these may have influence on the demand for associated products as well as the presence of what might be termed the "parent" product. While product-in-use data are of real value to the market analyst and are very easy to use, still these conditions should not blind him to the fact that he may also need to use other data in the determination of potential demand both for the product itself and for associated products.

Objective Factors Data

In contrast to the use of sales or inventory data for estimating the relative market potential, data on objective factors may be used. Of course, they may be used in combination, but here we are considering single factor methods. Among other such factors, a company may use an index of population, income tax returns, wired homes, gas meters, residence telephones, or car ownership. No other single factor has been used so frequently as population. Companies have assumed that their sales should vary between different parts of the market in ac-

cord with the relative presence of individuals; that is, that per capita sales should be the same everywhere. Or the population figures may have been refined to include only native whites or, perhaps, native whites who have reached a certain age. For certain types of product, an index of the number of families as a variation of the population factor has been used. For products in universal use, such as table salt, an index of population without any of the suggested modifications may closely parallel sales and thus be a good measure of potential demand.

The procedure involved in the use of a single index may be exceedingly simple. If, for instance, a state has 6 per cent of the national income tax returns or of wired homes, it is likewise expected to take 6 per cent of the sales of a given commodity. But other than in rare instances, this is its only justification. The assumption that a single index is adequate to measure the market for products denies the influence of other factors which, if taken into consideration, would be likely to improve the index. Even for a product such as salt, factors other than population may affect demand. Perhaps climate as measured by mean average temperature, or nationality as measured by percentage of foreign-born, influence demand. The extent of their relationship to sales can be determined and, if important, they should be given their proper weight in studies of potential demand.

A further criticism of this method is that the relationship between the single factor and sales of a product is often assumed but not proven, other than deductively. If but one factor is to be used, it is important that it be the one which varies most closely with past sales. This can be tested by correlation analysis. The procedure is to correlate a number of indexes, which apparently are related to demand, with an index of past sales and thereby determine which has the highest correlation. Although there are some other questions involved, the one with the highest correlation is likely to be the best single index for use. In one study, it was discovered that the most important single factor affecting dry sausage sales was the presence of foreign-born consumers.[1] The correlation between per capita sales and the percentage of foreign-born in 84 cities was .77. If an estimating equation is used to determine the amount of the dependent variable (sales) which would be expected in view of the presence of the independent variable (foreign-born), the assumption of a proportional increase is not made. In other words, there may be a direct casual relationship between the sales of sausage and the presence of foreign-born, but as the latter increases the former may not increase in proportion. By use of an estimating equation after discovering correlation, this condition is taken into consideration.

The relationship between certain factors and the sale of products

[1] Donald R. G. Cowan, *Sales Analysis from the Management Standpoint* (Chicago: University of Chicago Press, 1938), p. 23.

is obvious but may be misconstrued; e.g., that between gas or electric power and household equipment. For instance, an index of wired homes or one of gas meters may be used as evidence of relative potentiality for sales of electric or gas stoves or other appliances. While such indexes are rough measures of market potential, neither one alone is likely to prove acceptable. Other factors, such as income and relative fuel costs, likewise affect purchases. Number of families might be a better single index than wired homes because of multiple unit dwellings. Gas meters can be installed, so the relative presence of gas meters may be more an evidence of replacement demand than of new demand. If it is known that most of the demand is for replacement purposes, an index of gas meters may be the most acceptable one for indicating market potential, particularly so if data on gas appliances in use are not available.

Application—Single-Factor Index Method

An index may be constructed for either political or marketing areas. An example of the latter and of the comparisons which can be made is furnished by a manufacturer of scientific instruments.[2] This manufacturer produced both a domestic and an industrial line. The latter was composed of thermometers used on heating and cooling apparatus in industry. In order to compare industrial sales and efforts expended with an index of demand, the company used an index based on fuel consumption. The amount of coal, gas, oil, and electricity used in each industry had been computed by another organization, and each in turn had been reduced to B.T.U.'s. The company allocated this fuel consumption by industries to its various territories and thus determined the proportion of total consumption in each. The effort expended in order to make sales was broken down into two indexes, one a measure of salesmen's efforts, the other of advertising. The number of salesmen operating in each territory was computed as a percentage of the total number of salesmen operating in the United States and called "man power."[3] The advertising expenditures for each territory were also expressed as a percentage of the company's total advertising expenditure. Thus, for each of the company's sixteen industrial territories in which sales organizations were operated, there were four percentage figures for comparisons—percentage of the potential market as indicated by fuel consumption, percentage of sales, percentage of manpower, and percentage of advertising. These are shown in Table 2.

[2] *The Accuralite Company*, Michigan Business Cases (Market Analysis Series, No. 1) (Ann Arbor: Bureau of Business Research, University of Michigan, 1934).

[3] It should be noted that this did not constitute an index of expenditures for salesmen unless there was little difference between the average salaries and traveling expenses per salesman in the various territories.

TABLE 2

Distribution by Territories of Sales, Man Power, and Advertising in Relation to Market Potentials Based on Fuel Consumption*

Territory	Percentage Distribution of —				Ratio of Sales to Potential (Col. 2 ÷ Col. 1)	Ratio of Man Power to Potential (Col. 3 ÷ Col. 1)	Ratio of Advertising to Potential (Col 4 ÷ Col. 1)
	Market Potential (1)	Sales (3-Year Average) (2)	Man Power (3)	Advertising (4)			
1	3.5%	11.0%	9.5%	4.2%	3.14	2.71	1.20
2	4.4	6.9	4.7	7.8	1.57	1.07	1.77
3	12.3	16.7	11.8	13.4	1.36	0.96	1.09
4	10.2	11.8	11.8	10.4	1.16	1.16	1.02
5	1.3	1.3	1.2	2.6	1.00	0.92	2.00
6	1.4	1.3	1.4	3.2	0.93	1.00	2.29
7	5.5	7.0	7.1	4.1	1.27	1.29	0.75
8	4.2	4.6	4.0	2.6	1.10	0.95	0.62
9	5.1	2.3	6.4	2.7	0.45	1.25	0.53
10	6.1	5.0	4.7	7.8	0.82	0.77	1.28
11	11.6	8.4	9.5	15.5	0.72	0.82	1.34
12	2.1	1.3	1.7	2.4	0.62	0.81	1.14
13	3.0	2.7	2.4	2.7	0.90	0.80	0.90
14	11.6	8.7	9.5	9.5	0.75	0.82	0.82
15	6.9	4.6	4.7	4.7	0.67	0.68	0.68
16	10.8	6.4	9.6	6.4	0.59	0.89	0.59
Total	100.0%	100.0%	100.0%	100.0%			

* Compiled from *The Accuralite Company*, Michigan Business Cases, Market Analysis Series, No. 1 (Ann Arbor: Bureau of Business Research, University of Michigan, 1934).

The results of this study in certain instances confirmed the impressions of executives as to the relative effectiveness of sales efforts. Furthermore, the study gave a quantitative expression to the degree of effectiveness attained and thus was useful in discussions between home office executives and territorial managers. Frequently, the data on man power and advertising gave some indication as to why the results attained were more or less than could be expected in view of the potentiality of a territory. Territories 4, 5, 6, and 8 are getting approximately the proportions of total sales which could be expected in view of the market potential in each. Moreover, each has been given about the right proportion of total man power. Territories 5 and 6 are given more advertising than the potential suggests and territory 8 is given about 40 per cent less. Sales effort seems to have been particularly effective in territories 1, 2, 3, and 7. In the first territory, there is evidence of excellent performance, in fact so good that the index of potentiality used was questioned. Man power is over two and one-half times that which would be suggested by the market potential, advertising is not far from normal, and performance is over three times the suggested figure.

In territory 2, with a normal man power and a high advertising expenditure, sales are much in excess of those suggested by the potential index. In both territories 1 and 2, there was probably a thorough coverage of the market, and the territorial sales organization had attained a strong competitive position. In contrast, territories 9, 11, 12, 14, 15, and 16 are not in as favorable a position. Number 9, with more than normal man power but with less than normal advertising, is doing very poorly in reference to potential. Some of these territories appear to have been assigned too little man power and advertising in view of their market potential. Definitive judgments cannot, of course, be made without a thorough knowledge of each situation—knowledge, perhaps, which would have to be secured by further studies. Furthermore, these studies might strongly suggest that fuel consumption was not the only factor which conditioned sales. The presence of other affecting factors might have explained particularly good performance in some territories such as 1, 2, and 3 and, by indirection, poor performance elsewhere as the comparison was all on a relative basis.

MULTIPLE-FACTOR INDEX METHODS

There are two multiple-factor index methods: the *arbitrary factors or percentage average* method and the *multiple correlation* method. Of the two, the former is the less scientific and provides the less accurate estimates. It is so named because an entirely deductive approach is used in the selection of factors. Personal judgment is substituted for statistical technique and the results are frequently in

error. It has likewise been called the percentage average method because this suggests the method by which the factors are usually combined. The multiple correlation method also gets its name from the statistical procedure which is used to select and combine the factors into a single index.

In order to get the problem into a realistic framework, let us suppose that a manufacturer of high-grade furniture is selling in all parts of the national market. In some areas, he suspects that his sales organization is much more successful than in others; at least the orders taken are greater in total amount and in relation to selling costs. Still he knows that the opportunities for sale must be greater in some territories than in others and with this thought in mind he hesitates to ascribe the difference in sales volume to differences in the effectiveness of his sales force. Perhaps his salesmen *should be* more effective in certain areas than in others. If sales volume in some territories appears to be unsatisfactory, the question then arises as to whether this situation is the fault of sales representatives or of the territory in which they work. In thinking of this problem, the first reaction concerns competition. He reasons that, if he could know what competitors were doing by way of sales volume, the question of the effectiveness of his own representatives could be answered. But he is not in the fortunate position of the automobile manufacturer or of the food or drug manufacturer who may get data on competitors' sales from private fact-finding organizations. Moreover, there is no record of product in use which might prove helpful. He does have available census data on "Furniture, Household (except Office)" sales from the 1948 Census of Business. He also has data on his own sales for past periods. The Census data are much more complete but they do not represent the sale of high-grade furniture only. His own sales data are of more recent vintage but they are incomplete in the sense that they are only a portion of total sales and, furthermore, they probably are not proportionate to total sales in all parts of the market. Still they are data on the sale of high-grade furniture rather than on all furniture.

A manufacturer may reason further that sales of any one year are not necessarily normal and, therefore, that they should not be used directly to estimate potential sales of immediately subsequent periods. An unusual rate of industrial activity in a certain area or particularly good crops in an agricultural region may increase sales above a normal level in any one year. The manufacturer may also recognize the fact that unusually good sales in any one year for a durable commodity may have a negative effect on sales within the next year or so. All of this reasoning leads him to a search for factors which characterize the market for his particular product—factors which are indicative of the willingness and ability to purchase. If the amount

of these factors which are present in different areas can be known, and if the factors themselves are reasonably stable, the relative extent of their presence is indicative of market potential or what might be termed normal sales. Moreover, the manufacturer may recognize that sales, just as any other economic phenomena, are affected by a number of factors and that no single one will suffice to explain past sales or indicate the potential market. Thus the problem of combining factors in a reasonable manner arises in order to arrive at a single index.

Arbitrary Factors or Percentage Average Method

The procedure in the use of this method involves four steps; namely, the selection of factors, weighting the factors, securing percentage data on their relative presence in each area, and combining these percentages to arrive at a single index for use as evidence of relative potentiality for sales. An illustration of this procedure is furnished by a study of the potential demand for high-grade furniture. Four factors were selected: native white families, sales of new automobiles (average, three previous years), income tax returns over $5,000, and total income tax returns. It was reasoned that furniture was a family purchase, not an individual one; also that the price of high-grade furniture prohibited its use by many families. The factor "native white families" was chosen because it eliminated the colored and immigrated population, and because it was thought to emphasize the class with the highest incomes, the highest level of education, and the greatest desire for artistic, quality merchandise. The other factors were selected as evidence of the ability to purchase. The fourth factor, total income tax returns, was included as well as those over $5,000 with the thought in mind that because of differences in living costs a lesser income level in small towns and rural areas might leave just as great a margin above the cost of necessities, and thus available for luxury purchases, as a larger income in urban areas.

The assumptions made in the selection of these factors will not be debated, for our major interest is in the manner of selection. It was purely deductive, for no attempt was made to determine directly the characteristics of people who had actually purchased high grade furniture in the past. Interviews with purchasers or, possibly, with furniture dealers might have furnished such information. Correlation procedure or even the use of scatter diagrams would have shown whether there was any relationship between the presence of these factors and past sales of high-grade furniture. A relationship was assumed but not proven, and, even if there were some relationship, it might not have been significant or in the direction assumed. In another study, it was found that the correlation between furniture sales per family and the

percentage of native white population was a negative one (—0.0126).[4] The fact was overlooked that some of our native white population are very poor, particularly people living in the southern mountain areas and on submarginal farms. In contrast, the correlation between furniture sales per family and the percentage of urban families was high (0.7675). This was the most important factor which conditioned sales.

In this instance all factors were equally weighted except income tax returns over $5,000 which was given a weight of two. As in factor selection, the method used in weighting was a deductive one based upon personal experience. The interrelationships between the factors were neither known nor taken into consideration. If two factors which are very closely connected, such as percentage of rural homes and percentage of rural population, are selected there is danger of unwittingly doubling the weight given, since they are almost two statements of the same force or influence. In statistical parlance they have a high intercorrelation. Perhaps the judgment of an individual or of a group in conference can be relied upon for a decision as to which factor is most important and which is least interrelated with others, but the question of *how much* more important one factor is than another or what degree of interrelationship is present cannot be decided in this manner within a reasonable margin of error. Furthermore, it is not necessary, as the statistical method of multiple correlation takes into consideration intercorrelations between factors and thus prevents duplication.

The remaining steps in the arbitrary factors method are illustrated in Table 3. Data were secured on the relative presence of the factors on a county basis. The county percentage figures were then accumulated for trading areas.

The data obtained through this study indicate that the state of Wyoming should take 0.23002 per cent of the total sales of high-grade furniture. How these sales should distribute themselves between the Casper, Cheyenne, and Sheridan trading areas is also indicated. Inasmuch as the company estimated its coming year's sales at $10,000,000, if Wyoming took its "proper share" as indicated by this study, state sales would be $23,002 if the total estimate was made, or 0.23002 per cent of the actual sales total. Again, it is shown that the information secured from studies such as these is not of an absolute, but of a relative, nature.

Many of the weaknesses of the arbitrary factors method have been noted—among them the possibility of faulty judgment in the selection and weighting of factors. The error is in not using statistical

[4] "Andover-Worth Furniture Company," *Michigan Business Cases* (Market Analysis Series, No. 9) (Ann Arbor: Bureau of Business Research, University of Michigan, 1938), p. 9.

TABLE 3

Application of the Arbitrary Factors or Percentage Average Method

Trading Area	Percentage Distribution of Market Factor (United States Total = 100%)					Potential Distribution of Sales (United States Total = $10,000,000)
	Native White Families	Sales of New Automobiles (3-Year Average)	Number of Income Tax Returns	Number of Income Tax Returns over $5,000	Weighted Average	
Casper area	0.08346	0.12857	0.12390	0.13095	0.11956	$11,956
Cheyenne area	0.06113	0.08284	0.09076	0.08282	0.08008	8,008
Sheridan area	0.03856	0.03305	0.03023	0.02503	0.03038	3,038
Wyoming total	0.18315	0.24446	0.24489	0.23880	0.23002	$23,002

methods which will either confirm or deny results of deductive reasoning. Some interrelationships between factors which seem plausible are often not present. Then, also, there is the difficulty of making numerical judgments after a deductive approach. Even if an important factor has been chosen deductively, the question of how important it is remains and must be answered. Even where there is no conscious weighting of factors—that is, each factor is given a weight of one—a judgment, one of equality of importance, has been made. The problem cannot be sidestepped by inattention to it.

Finally, it should be observed that in the use of this method erroneous assumptions are often made about the relationship between income and the potential demand for products. Some index of income or wealth is usually included in factor combinations with the idea in mind that there is a strong, positive relationship between the two. In fact, income may be a positive or a negative factor in relation to the sales of commodities. Some products are designed and marketed with the idea in mind that they will appeal to and be purchased by individuals or families in the lower income levels. For such products there would probably be a negative relationship between income and potential sales. There should be if the concern has been successful in planning its product for its intended market. For other products, the level of income is simply not an important factor. Either because of the fact that a product has become almost a necessity for most people, its failure to increase in use proportionately with increased income, or its use only under certain limited environmental conditions, relative income is not important.[5] These comments strongly suggest that the relationship between various factors and sales data should be tested, at least by scatter diagrams and preferably by correlation procedure, before the factors are accepted and used.

It is worthy of note that in some studies of potential demand the factors have been chosen by correlation methods but have then been combined by the percentage average method. If correlations are made between the dependent variable (past sales) and numerous independent variables and then between the independent variables themselves, independent variables (factors) can be selected which not only have a high correlation with the dependent variable but also a low interrelationship with each other. This method is a hybrid between the arbitrary factors or percentage average method and the method of multiple correlation. Still the word "arbitrary" is no longer appropriate for the selection process; "percentage average" is appropriate for the combination procedure. It has been called the "modified multiple correlation method" in other publications by the author.

[5] Clement Winston and Mabel A. Smith, "Income Sensitivity of Consumption Expenditures," *Survey of Current Business* (Washington, D.C.: U.S. Government Printing Office, January, 1950), pp. 17–20.

The arbitrary factors method continues to be widely used by business firms. It is simple conceptually, easy to explain and use, and inexpensive. If the factors are selected by scatter diagrams or by correlation, rather than by hunch or intuition, the resulting index can be reasonably adequate. Moreover, the fact that the index is prepared for a particular product may obviate the use of a generalized index which is not so prepared. Perhaps the use of the arbitrary factors method—one which can be understood without difficulty—will heighten its acceptance by management. Then its use can at times be justified by the fact that there is no index of sales available, either of company or industry sales, for use as the dependent variable for correlation studies. Suppose that the product in question is a comparatively new one, and that sales to date have not been even roughly in accord with possibilities. In that case, the analyst has little possibility of determining what factors affect sales other than deductively or by personal interviews with people who have purchased it. He must rely upon common sense, confirmed by observation, and hope that the factors selected have a causal connection with potential sales. There are still many situations of this type, but the number is being reduced by the accumulation of sales data by the Bureau of the Census and by other agencies.

Generalized Indexes. The reason for considering generalized indexes at this point is that most of them are constructed by the arbitrary factors method. The term "generalized" in this connection connotes *general application*, or an index which can be used for any product, in contrast to one which has been prepared for a specific product or class of products. It is the usual distinction between a standardized and a custom-made job. An index of magazine circulation is a generalized index, but of the single factor variety. However, most generalized indexes combine a number of factors and usually by the percentage average method.

There have been many generalized indexes prepared by publications and advertising agencies. Some of the best known of these are the McCann Index; the Batten, Barton, Durstine and Osborn Index; the International Magazine Index; and the Sales Management Index. The International Magazine Index is based upon an average of 21 factors. Probably no other index is more widely used than that of *Sales Management.*[6] It is prepared with the advice and co-operation of many able people in the field of marketing research, and is revised each year.

The index is based upon estimates of population, retail sales, and effective buying income for all counties and cities which had retail sales of $4,000,000 and over in 1939. Estimates of population by states are made semiannually by the Bureau of the Census and are then broken down by *Sales Management* to counties and cities on the basis

[6] *Sales Management*, "Survey of Buying Power," Vol. LXIV, No. 10 (May 10, 1950). The full issue, other than advertising, is devoted to the survey.

of estimates of population changes by chambers of commerce, sample surveys, and the help of local official agencies. Data on retail sales and personal income are likewise a further breakdown of government data, in this instance from the U.S. Department of Commerce. The Department prepares estimates of total retail sales and components of sales for the nation, which are then broken down by *Sales Management* to states, counties, and cities largely on the basis of sales tax data from 27 states and the city of New York and other related indicators of local regional activity. Estimates of retail sales are made for four store groups: food, general merchandise, drug, and furniture-household-radio.

Estimates of effective buying income are a further breakdown territorially by *Sales Management* of national and state estimates of gross national income made by the Department of Commerce. These estimates are based upon wages and salaries, dividends, interest, rents, entrepreneurial income, government payments, and income from miscellaneous sources. From these income data are subtracted taxes to secure what is called "effective buying income" or "disposable income." Information on taxes is secured from the Bureau of Internal Revenue and from state tax administrations. The disposable income of each state is then broken down to counties and cities on the basis of "known relationships between the county and state (city and state, city and county) including such factors as retail sales, income tax returns, bank debits, population changes, etc." but the exact method is not revealed.[7]

The Sales Management Index is presented as "% of U.S.A. Potential." It is a weighted average of the three factors. The weights given are as follows: "% of U.S.A. Effective Buying Income," five; "% of U.S.A. Retail Sales," three; and "% of U.S.A. Population," two. This weighting, it is stated, was decided upon after a great deal of study and experimentation and after checking tentative conclusions with actual sales records of many *Sales Management* subscribers. Later, however, it is suggested that other weightings of the factors might be more acceptable for determining potentials for some products. The "% of U.S.A. potential" is secured by applying the percentage average method to the data on each factor. In its annual Survey of Buying Power issue, *Sales Management* presents a wealth of material in tables and charts on the various factors by states, counties, and cities as well as the index of market potential.

The "% of U.S.A. Potential" is accurately termed a buying power index. Retail sales are the latest expression of the use of income, and population in reference to retail sales and gross income furnishes a qualitative expression of the market in the various political units. *Sales Management* divides the "% of U.S.A. Potential" by the "% of U.S.A. Population" to get what is termed a "Quality Market Index."

[7] *Ibid.*, pp. 30–31.

In fact, this index is an expression of average income per capita. So this index of potentiality is one of ability to purchase, not one of willingness to purchase. The assumption is that a general measure of purchasing power is adequate as an indication of market potentiality for *any* product or that it can be used with slight modifications. It is indicated, however, that for some products only one of the component factors as an index might be more acceptable or that the weightings might be changed. For instance, it is suggested that, for a low-priced, mass-consumption article, an index of population alone might be the best index of buying opportunity. Still, the fact remains that it is essentially a buying-power index and that any such index fails to take into consideration other factors which may condition purchases.

Often the degree of potentiality for a product is not a question of buying power but of how people choose to use their incomes. This is a function of racial background, environmental conditions, the ways in which people make their living, education, and a host of other factors, all of which appear in developed purchasing habits. If these factors affect the sales of a product, they should be taken into consideration in determining market potentials in so far as possible. The *basic weakness of the generalized index is the assumption of general application;* that is, that these special factors which condition the sales of particular commodities do not need to be taken into consideration. While this weakness may be admitted, still it is not sufficiently stressed by those who prepare and publicize indexes of this character. Nor is sufficient care taken to indicate for what classes of product the index is most acceptable and for what classes least acceptable.

The use of a generalized index, particularly one which is so carefully prepared as that of *Sales Management* does have certain advantages, particularly for those products the sales of which are largely affected by purchasing power. Their use obviates index preparation by the individual concern. Data are presented by counties and cities so that, through combination, data can be assembled for sales territories. Any data such as this on potentiality can be used for setting sales quotas and for the distribution of promotional expenditures and man power over the market. Furthermore, changes in the indexes are made periodically as new information appears so they are always timely. These factors probably account for their widespread use by business concerns, either as the sole basis for indicating market potentiality, or as one factor in combination with others in a custom-made index for a particular product.

Multiple Correlation

The application of statistical method to the problem of determining market potentials began in the middle years of the 1920–29 decade.

As is usually the case, a number of people were thinking along the same lines at about the same time. Donald R. G. Cowan was experimenting with the method of multiple correlation at Swift & Company in Chicago and L. D. H. Weld at the H. K. McCann Company in New York. H. G. Weaver was working on the development of a basic purchasing power index by counties at General Motors Corporation. In 1925 the author worked on a study which used multiple correlation in an attempt to discover what states had been relatively overdeveloped and underdeveloped by the automobile companies in relation to the basic factors which affect purchase. In this study three factors were selected: wealth per capita, percentage of literacy, and an index of population density. These, in combination, had a correlation coefficient of .87 plus with automobile registration per thousand population. During the decade a number of articles appeared in scientific and trade journals which indicated a wide interest in the application of statistical methods to marketing problems.[8] This interest was, in part, a reflection of the fact that there were no data available on the distribution of sales of most commodities over the national market. Multiple correlation analysis provided a means of estimating this distribution and was therefore a substitute for the collection of sales data by territorial divisions.

No attempt will be made fully to discuss the theory of multiple correlation, nor to follow its mathematical procedures by means of an example. Such information can be secured from books on statistical method.[9] We are chiefly interested here in its use as a tool of quantitative analysis. After a brief discussion of the procedures followed, something will be said about the interpretation of results.

Application of the Method. There are four steps involved in the application of the multiple correlation method: (1) selection of the dependent variable, (2) preliminary selection of the independent variables, (3) testing and final selection of the independent variables, and (4) combining the independent variables into a single index. The dependent variable is the control factor; for instance, past sales, the relative amount of which in different areas may be explained by the presence of other factors which are called independent variables. These may be such factors as wealth or income per capita, percentage of urban population, average mean temperature, or any one of a host

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[8] Donald R. G. Cowan, *Some Difficulties to Be Encountered in Determining Sales Quotas* (Sales Executive Series, No. 31) (New York: American Management Association, 1926), pp. 2–12; L. D. H. Weld, "Scientific Determination of Sales Quotas," *Printers' Ink*, May 30, 1929, pp. 17–20.

[9] Ezekial Mordecai, *Methods of Correlation Analysis* (New York: John Wiley & Sons, Inc., 1930); Robert Ferber, *Statistical Techniques in Market Research*, chap. xii (New York: McGraw-Hill Book Company, Inc., 1949); and Donald R. G. Cowan, *Sales Analysis from the Management Standpoint*, chap. ii. (Chicago: University of Chicago Press, 1938).

of others. Sales are dependent upon conditions such as these which characterize the market and which appear, in greater or lesser extent, in various parts of the market. Deductive reasoning may indicate a causal relationship between past sales and certain factors. For this reason, it is assumed that sales in the past have been made over the market at least roughly in accordance with the relative presence of these factors, and that they may be discovered from sales data through a measure of concomitant variations.

1. Selection of the Dependent Variable. An index of a company's sales may be selected as the dependent variable for either of two reasons: (1) there may be no other possible choice for data on industry sales may not be available, or, (2) a company's product may be so unusual and distinctive that it appears to be in a class by itself. If a number of companies are selling much the same product and if an index of industry sales can be secured, it should be used as the dependent variable. The reason is that there is much more likelihood that an industry as a whole has made sales in proportion to the presence of causal factors than has any one company. Perhaps an individual company has had spotty sales over the market because of varying success in meeting the competition of other companies in different regions. Company sales data, under such conditions, would be less effective as the dependent variable. In contrast, if a company has developed all parts of the market thoroughly, its sales data can be used without much fear that the relationship between past sales and independent variables will fail to appear. Of course, one cannot expect as high a correlation coefficient when company sales are used as when industry sales are used. The presence of a relationship has to be accepted on more meager evidence, but, in most instances, important relationships can be discovered even though company sales have to be used as the dependent variable.

2. Preliminary Selection of Independent Variables. Independent variables are first selected by deductive reasoning and through recourse to the experience of others. As suggested previously, observation of buyers who have purchased in the past may reveal their most important characteristics. A thorough knowledge of the product and conditions which surround its use likewise furnishes the basis for assumptions on which deductive reasoning is built. First, it is necessary to ascertain the influences affecting sales in some such manner and then to seek for an index which measures the relative extent of its presence in various parts of the market. This suggests that the market analyst needs a thorough familiarity with the types and sources of statistical information available. He should also have a wide acquaintance with the studies made by other companies with similar problems, for these may be the source of ideas as to the factors which condition sales. As a result of this general procedure, the analyst is likely to

emerge with a considerable group of factors which presumably may have some connection with sales.

3. Testing and Final Selection of the Independent Variables. After a tentative list of factors is selected, the next step is to study each factor to determine its significance, in an effort to select those which are most closely related to sales. The simplest means of testing factors is by the use of scatter diagrams. While this means shows the extent of correlation graphically, it does not provide a numerical coefficient. Still, through the use of scatter diagrams certain factors can be discarded and others tentatively selected. Finally, however, the regression equation must be computed if the factors are to be combined in a single index through multiple correlation.

Attention should be given to the form in which the factors are stated. It is often necessary to reduce aggregate data by taking into consideration the population influence. Otherwise, those political divisions which have the greatest population are presumed to be the best markets. It is necessary to reduce the data to some such form as the following; for instance, average income per farmer and percentage of farms operated by owners, rather than farm income and farms operated by owners. If all the farms in a state the size of Texas had very low income, still the aggregate would be very great because there are so many of them, and only by reducing aggregate income data to a per farmer or per farm basis can a realistic qualitative measure of income be obtained. It should be recognized, however, that restrictions are imposed on the data when variables are thus modified, and that decisions on suitability of such modified or transformed variables require a knowledge of the nature of the market and, in addition, the expert knowledge of the statistician.

4. Combining the Independent Variables in a Single Index. The final step is to combine the independent variables selected into a single index by the method of multiple correlation. In fact, this method has dual powers as it both aids in factor selection and accomplishes accurate weighting. This is because of the fact that it takes into consideration the interrelationships between the independent variables, as well as the relationship of each to the dependent variable. It is possible to determine the part correlation of each; that is, a measurement of the relationship between any independent variable and the dependent variable after allowing for the effect of other factors upon that variable. The part correlation of an independent variable, such as average income, might be considered as the net contribution of that variable in the explanation of variation in the dependent variable—in this instance, the distribution of past sales over the national market. The aid which this gives in factor selection arises from the fact that a certain factor may have a fairly high correlation with past sales, but only because it is highly intercorrelated with one or more other fac-

tors. When the extent of intercorrelation is taken into account, its net contribution may be negligible. Some other factor which had a lower correlation with past sales, but which was not highly intercorrelated with other factors, might contribute more and thus improve the multiple correlation figure and, finally, the powers of estimate through the regression equation.

Through the application of this method the author found that two factors—namely, number of individual income tax returns per 1000 population and the percentage of urban families to total families, had a multiple correlation coefficient of .8987 with per capita sales of furniture by states in 1929. An attempt was made to discover other factors which, in combination with these two, would improve the correlation figure and thus the power of the estimating equation to explain the variations in per capita furniture sales. The addition of other factors did not, however, appreciably improve the correlation coefficient.

Interpretation and Use of Multiple Factor Indexes

From the foregoing, it appears that the multiple correlation method of establishing relative market potentials has much to commend it. Through its use, the market analyst avoids the necessity of making many questionable assumptions. He is relieved of complete dependence on deductive reasoning in the selection and weighting of factors. If the method is used effectively, there is reason to believe that the results attained are more accurate than those attained by the use of other index methods. Still, it must be realized that application of the method is a technical matter, and that there are many problems and pitfalls for the uninitiated. It is not appropriate to consider these technical problems here. Suffice it to say that the method of multiple correlation is considered applicable to the problem of determining market potentials by statisticians. Their advice should be sought in connection with its use.

The nature of the multiple factor index should be fully comprehended. It is a series of estimates, in percentage form, of the proportions of total sales which various parts of the market would have taken if the influences represented by the independent variables were entirely determinative. Table 4 shows actual data on furniture sales and estimates based upon two independent variables: (1) number of individual income tax returns per 1,000 population and (2) percentage of urban families to total families for 1929, together with figures on the distribution of a company's sales for a selected group of states.

Variations between estimated and actual sales were to be expected because correlation was less than perfect. This is evidence that all the influences which affected sales were not included among the independent variables, nor could they have been included. It is likely that

such influences are of two sorts; some of a stable nature, some of a relatively less stable one. The former should be included if they can be discovered, whereas the latter are of little significance for determining the normal situation. Such influences as a temporary increase in purchasing power because of particularly good crops, an unusually high level of activity in a certain industry, or some other factor which affected demand during the year for which sales data are used as the dependent variable are not likely to continue for subsequent periods. Such transitory conditions may be present only in certain territories. They change the relative situation in reference to purchasing power and thus sales, but only for short periods. This suggests that sales in any one year are not necessarily *normal* sales.

For durable goods, this conclusion is particularly defensible, for heavy sales in any one year preclude sales in immediately subsequent

TABLE 4

ESTIMATED AND ACTUAL FURNITURE SALES BY STATES

State	Estimated Distribution of Industry Sales	Actual Distribution of Industry Sales	Distribution of Company Sales
Alabama .	1.230%	1.265%	1.15 %
Arizona	0.265	0.302	0.345
Arkansas. .	0.718	0.716	0.565
California	6.149	4.887	5.312
Colorado...	0.789	0.664	0.432

periods. Thus, there is reason to believe that a well-constructed index, based on reasonably stable factors which have had a high relationship with sales in the past, may furnish a better indication of the distribution of sales in the future than actual sales of any single preceding year. Such an index might well be thought of as the market demand pattern around which sales of any one year would fluctuate; in other words, as an index which represents the most likely distribution of sales over the market. If there were substantial variations between the estimated index and the actual one of past sales, particularly for a new product whose market had not been saturated, it would indicate relatively oversold and undersold areas for the industry as a whole. This is significant information because it would also give some indication of where promotional expenditures might be most productive of sales volume.

Usually, industry sales data are not available, and then company sales data have to be used as the dependent variable. A stronger case can then be made for an index based upon objective factors. Take the furniture situation as an example. Sales of furniture were available from the 1939 Census of Business and again from a like source in 1948, but not in the interim years. However, new data on

income tax returns appeared annually and could have been fitted into an equation through which estimates were made. Estimates on population changes between urban and rural were also available between censuses and could have been used in a like manner. Of course, it would have been necessary to assume a continuing relationship between these variables and sales, but the assumption would not have been an unreasonable one. At least an index which showed the probable distribution of sales would have been available in the absence of new data on industry sales for the between-census years.

Informative comparisons can likewise be made between the distribution of company sales on the one hand and the distribution of industry sales and the estimated index on the other. For this purpose, it may be necessary to prepare the indexes by sales territories. The data will show strong and weak points in a company's sales territorially. In the above illustration (Table 4), Colorado would be considered a weak territory; California and Arizona strong territories. In analyzing data of this sort the sales executive often realizes why certain territories are not up to par. The data may confirm his beliefs as to the relative effectiveness of sales efforts in various territories. In contrast, the data may provide information as to why some territory is not doing as well as expected. Perhaps too much may have been expected in view of the market potential present there. Trends in effectiveness may also be determined by comparing the distribution of sales of each year over a number of years with the estimated index. For instance, if a certain territory, according to the estimated index, should take 3 per cent of total sales and over a five-year period the percentages of actual sales were 1.5, 1.75, 2.25, 2.55, and 2.85 per cent, the conclusion would be that performance was improving and had nearly reached normal. Because the figures are relative, some other territories would probably approach normal from a greater than normal position.

Finally, while the data made available through the use of multiple factor indexes are helpful, like all other statistical information, they are only an aid to judgment. They do not tell management what to do under all circumstances, as might be inferred from some statements. The function of these data is to reveal the probable location of the market in its relative aspects in various political divisions or in sales territories. Otherwise management may see the market only through the sales activities and records of an individual company and through unorganized observation. These data give management additional factual material of use in planning the sales effort and in the formulation of business policy. They should improve the thinking of executives through the substitution of more correct assumptions for less correct ones. The end result should be less error, more wisdom in business decisions which relate to marketing.

Summary

At this point in our discussion, it is necessary to recapitulate briefly. The market analyst attempts to forecast business conditions; to appraise the effect of a contemplated change in business conditions upon the sales volume of the products which his company produces, and thus to estimate the market potential for an advance period; to forecast what proportion of contemplated sales his company can expect to make, and thus to estimate the sales potential; and to prepare or select an index of potentiality for sales which will show what proportion of the market and sales potentials each territorial unit should take in view of the factors affecting purchases present in each. Application of this index to the market potential figure will furnish dollar or physical unit figures comparable to those arrived at by the individual unit forecast procedure discussed in the previous chapter.

The individual unit forecast procedure, however, may be used only to forecast company sales, not industry sales, although it could be used to forecast both. In that event, these data, after review and possible revision, can be used directly as quotas. In contrast, an index of potentiality applied to the sales potential figure furnishes what might be termed a normal distribution of sales over the market. It is not a *likely* distribution of sales, however, because a company will not have been successful in the past in making sales in all territorial units in accordance with potentiality. Factors not included in the index—such as salesmen's relative effectiveness, strength of competition, and the like—will have a bearing on future sales. Nevertheless, these data on relative potentiality of different parts of the market for sales are a starting point for determination of what each territorial unit should take of a company's sales potential. We now turn to a discussion of the determination of sales quotas in which this question of a breakdown of the sales potential figure will be considered further.

DETERMINATION OF SALES QUOTAS[10]

Sales quotas in the past have often been determined by very crude methods which merit little discussion. Perhaps the simplest, yet the least defensible method, is to extend the past sales of each sales representative by a certain nonvarying percentage and then to call the resultant figures quotas for an advance period. Or the sales manager may go into a huddle with himself or with other home office people and, with the aid of some information on past sales records, salesmen's individual abilities, and business conditions, arrive at quota figures. Obviously, through such a haphazard procedure, there is much guess-

[10] Other aspects of sales quotas, including their administration, will be considered in relation to evaluation of salesmen's performance. See Chapter XVII, pp. 805–10.

work, hunch, and unsupported opinion involved in the process. In many concerns, these unscientific procedures have now given way to others which establish quotas much more accurately; that is, quotas which reflect more accurately all factors which will probably have a bearing upon sales volume secured.

The two principal bases for the determination of sales quotas are a well-prepared index of potentiality and an index of past sales. Obviously, past sales have a bearing on sales of the future. Substantial deficiencies in past performance cannot be made up in any one year. Thus, when attacking the quota problem, sales executives may have before them an index of relative potentiality by sales territories, a breakdown of past sales over a period of years by territories, information on the distribution of man power over the market and on the performance of particular salesmen, branch managers, and other field personnel. They may likewise have information on business conditions in particular sections of the national market, and on the relative strength of competition in various parts of the market. Their task is to establish quotas fairly and equitably on the basis of this information, in view of the sales potential figure previously decided upon by top management.

In many instances, the procedure involved from this point forward is simply one of bringing judgment to bear on each of many specific situations. Suppose, for instance, that a study of relative potentiality for sales showed that a certain territory—in view of its population, wealth, industry, or other factors affecting purchases—should take 2 per cent of total sales or, let us say, $100,000 of a sales potential of $5,000,000. Let us assume that in the past year this territory had taken only 1.8 per cent of total sales and that its actual sales were only $75,000. It would be considered a weak territory and the reasons therefor might be well known. Any one or more of a number of conditions might be responsible; among them, ineffective representation, strong competition, poor regional business conditions in the year past, too large a territory for complete coverage, or a traditionally weak position for which no reasons could be adduced. Perhaps the conditions which were, at least in part, responsible for a poor record in the year previous had changed. There might be evidence that the company was becoming stronger competitively, either productwise or in representation. From an analysis of these factors, a decision might be reached that $100,000 in sales would be too much to expect, but that an increase to $90,000 would not be an unreasonable expectation and, as a goal or sales target, that it should be acceptable to the salesman.

In this process of arriving at quota figures, a number of people in the home office or field offices are likely to participate. Before finalization, the quota figure for each salesman is likely to be discussed with him and, perhaps, modified if he thinks the figure is too high. He may

have information which management does not possess which should have a bearing on the quota assigned. Through such painstaking effort which combines the judgment of many people, quotas are established for sales personnel and territorial units.

The procedure just outlined may not appear to be scientific; still, the judgments made are informed judgments, not haphazard ones. An attempt has been made to gather and analyze all the pertinent information which should have a bearing on the distribution of the sales potential. While each factor may not have been isolated to the extent possible nor assigned a specific weight in an equation, something approximating this has been done in the judgmental process. The term "scientific" should not be reserved for quantitative measurements, some of which often rest on very shaky foundations. Rather, the scientific approach is a careful and painstaking effort to relate phenomena, and this may be done in the procedure just suggested for establishing sales quotas.

We now turn to two examples of sales quota determination. The first is an explanation and analysis of the procedure followed by the Burroughs Adding Machine Company, the second that of the Westinghouse Electric Corporation. It will be observed that the Burroughs Company uses the over-all forecast procedure, whereas the Westinghouse Company uses the individual unit forecast procedure. These two illustration thus offer an excellent procedural contrast.

Quota Determination—Burroughs Adding Machine Company.[11] Members of the Office Equipment Manufacturers Institute furnish data quarterly on orders accepted in each of 558 major counties in which from 85 to 90 per cent of all sales are made. In fact, about 50 per cent of all sales are made in 35 counties. The unreported 10 to 15 per cent of sales are made in the other 2513 counties. Sales in each of these counties can be estimated by use of Social Security Administration data which will presently be discussed.

With this information at hand, the distribution of industry sales over the market can be determined for past sales periods, a particular company's proportion of the total can be determined for each county and in sales territories if they are bounded by county lines, and trends in these proportions can be noted as evidence of an improved or a deteriorating position. In addition, a concern will have or may secure data on its own past sales by counties, not only for the immediate past, but also for many years previously. Sales analysts can thus furnish top management with quarterly reports on the company's competitive position, likewise the trend in competitive position, in each county and in each branch area or sales division if they are bounded by county lines.

[11] The information which follows on the quota plan in use by the Burroughs Adding Machine Company was secured directly from the Company's sales executives.

Potential sales, it is recognized, are not only a function of past sales through replacement, but also of the number of business enterprises, their type and size. Fortunately, data on business establishments, employment, and taxable payrolls are available from the Bureau of Old Age and Survivors Insurance, Social Security Administration, Federal Security Agency.[12] These data in March 1949 covered 2,674,931 business firms, employing 35,627,497 workers. The firms were grouped by state and county under 9 major classifications for all counties and 157 classifications for 426 of the largest counties. Business establishments were further broken down by seven employee-size groupings. From these data it is possible to construct a county index of employment, taxable payrolls, and number of business establishments weighted by lines of business.

In the Burroughs Adding Machine Company, the indexes used for breaking down the sales potential or company sales quota to counties are three in number: (1) annual sales average of recent years in each county as a percentage of Burroughs' total sales, (2) percentage of the industry's sales in the previous year in each county, (3) a county index developed from the Social Security Administration data on employment, taxable payrolls, and a number of business establishments weighted by lines of business. Formerly a fourth index was included, that of Burroughs' past year percentage of total sales. This index was dropped, however, because of its very high correlation with the index of Burroughs' annual sales average for recent years. It will be noted that the second and third indexes used are external to the company's operations, while the first is internal. The weighting of these three factors is not disclosed, but the external factors are given considerable weight. The percentages for each factor for each county are applied directly to the sales potential figure and the weighting decided upon is then accorded to each. The totals thus secured show what proportion of the total sales potential each county in the United States should take in view of the relative presence of the various affecting factors which are included in the computation. As branch territories are bounded by county lines, securing branch quotas is simply a matter of combining the data for a number of counties.

The reasonableness of using the annual sales average of Burroughs' products for past years, the industry sales for the immediately preceding year, and an index which includes employment, taxable payrolls, number of business establishments weighted by lines of business, should be apparent but may merit further discussion. The reason for

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[12] U.S. Department of Commerce, "County Business Patterns—Business Establishments, Employment and Taxable Pay Rolls" (Washington, D.C.: U.S. Government Printing Office, 1949). These data cover the first quarter of 1948. It should be noted that the Office Equipment Manufacturers' Institute sponsored the initial publication of these data.

including average sales for preceding years is that this type of office equipment is a durable good. Many purchases are for replacement purposes. If sales are very high in one year in relation to machines in use, sales are likely to be lower the next year. Therefore, the average sales for a number of years should have more bearing on quota assignments than sales of the immediately preceding year.

Industry sales are included, for they are the most recent expression of the relative potentiality of each county or territory. Moreover, industry sales are more likely to spread themselves over the market in relation to demand than are the sales of any one company. Perhaps a territory has done better relative to industry sales than other territories, or it may have done worse. By including an index of industry sales, good performance is penalized by a higher quota to a lesser extent than it would be if an index of only company sales were used. On the contrary, the territory whose performance had been weak would be given a higher quota through the inclusion of the industry index. This is reasonable, for performance has not been satisfactory.

The reason for including the index of employment, taxable payrolls, and number of business establishments weighted by lines of business, is that this is the best indication of potentiality for sales. Not only is the number of business enterprises included but likewise their relative size and the extent of their activity. At one time population was included in this index. However, it was deleted as the correlation between population and industry sales was very high.

In addition to assigning quotas for each branch in the manner suggested, the company distributes these quotas by lines of business and by product classifications. In other words, in addition to an over-all quota figure, this figure is broken down so that the branch knows how much should be sold to each of the following groups: banks, other financial, public service, government, manufacturing, wholesalers, retailers, and general. This breakdown by lines of business is made on the basis of two factors, equally weighted, namely, (1) an index based on previous experience in sales to each group in each branch, and, (2) an index based upon the Social Security Administration data on employment, taxable payrolls, and number of business establishments in each of the groups. Again, there are both internal and external factors. Company experience alone would not be conclusive, for it is altogether possible that a certain branch had not been particularly successful in the past in selling to some particular business group. Still, if this is the case, it is likely that such a deficiency cannot be overcome immediately. However, it should not be perpetuated fully through quota distribution. By bringing in external data as well as internal data, the quota to this line of business is increased and thus is more in line with actual demand conditions.

The initial step in breaking down the branch quotas by a product

classification is to establish a sales potential for the company as a whole, or "national quota," as it is here termed, for each product category in the company's line. If it were possible to secure data on national sales for all companies by sufficiently detailed product categories from the Institute, the same procedure of combining indices previously outlined could be used for each product category; that is, the same procedure could be followed for the various parts of a company's line as for the line as a whole. However, as industry sales by product categories are not available, other than on a very broad basis, some other method must be used. The branch quota could be broken down among the various product categories on the basis of the company's previous experience in each branch. This breakdown would reflect the company's marketing history in each branch and certainly past performance cannot be entirely ignored.

If this were done, it would be based on the assumption that sales in the past in each branch had been made in direct proportion to the total demand for each product. However, a particular branch might have been either particularly weak or strong in the sales of certain products and, therefore, it would be wise, if possible, to relate expected sales to some measure of industry experience, to an analysis of products in use or of use to particular types of business enterprise, or to the breakdown of sales by product categories for the company as a whole. As no data are available on industry sales by usable product categories, the Burroughs Company distributes branch quotas productwise on the basis of past experience of the company in each line of business. In fact, this means that the respective type of business in each branch territory is expected to take the same proportions of the Company's various products.

Sales executives of the Burroughs Company feel that the breakdown of the sales potential figure for the company to its branches, and the breakdown of these quotas to lines of business and to product categories, is made on a reasonably sound basis. The problem remains of breaking down branch quotas to salesmen. This is not difficult in those instances in which one salesman is given a number of counties, as is often the case in nonurbanized areas. However, when many salesmen work in one county, this problem becomes a much more difficult one.

The company uses a block system. A block may be a geographical area, an individual account, or, in some cases, a line of business. In all instances, however, it is a sufficiently small unit so that it can be transferred in total when changing territorial assignments. Branch offices maintain block records which show current sales by product categories and the sales average in each for the past few years. Territory and block quotas are assigned to salesmen on the basis of this historical record of sales to each. While this procedure undoubtedly had merit

in normal times, the sales of the 1940–49 decade were abnormally distributed as a result of World War II. Therefore, any distribution of quotas to salesmen on the basis of sales during that period is likely to be in error.

The objective, of course, is to give each salesman within a branch his rightful proportion of the branch quota in view of the potentiality of the area or accounts to which he is assigned. Furthermore, his quota, for purposes of control, should be broken down for each block or segment of his individual territory by products. It would thus be possible to spot weaknesses in the sales of particular products, to particular concerns, or to particular lines of business. That which is needed to determine salesmen's quotas is evidence of potentiality, other than past sales of the particular company, in units smaller than the county, perhaps for each concern which is a customer or potential customer. If the data from the Social Security Administration could be more detailed, by companies, business blocks, or on some other such basis, the difficulty of determining quotas for salesmen who work in urban areas would be greatly reduced.

Quota Determination—Westinghouse Electric Corporation. An illustration of a dual approach is furnished by the procedure in use by the Westinghouse Electric Corporation.[13] In order to understand the Corporation's problem in setting quotas, the nature of its markets must be well in mind. These markets have the characteristics common to markets for heavy equipment. First, they are noted for wide fluctuations in volume of sales from year to year. Volume of sales, therefore, is not a particularly good criterion of performance. Second, the Corporation's position varies widely from line to line. For example, in 1949 the Corporation was obtaining 32.6 per cent of the total industry sales volume in one product, only 10.9 per cent in another. Because of the relative opportunity for profit and the extent and nature of competition, the Corporation may not seek a uniform proportion of sales. Third, business is obtained largely from the same customers year after year. Key customers are a continuing source of an important share of the Corporation's business. Fourth, major equipment purchases are made at irregular and sometimes widely spaced intervals. Generating units and steel rolling mills are extreme examples of this point. Fifth, the Corporation's products are the outgrowth of technical engineering and the same basic equipment may have varied applications. Sixth, much of the Corporation's selling must be done at more than one point. Co-ordinated sales effort may be made both at the customer's plant and at headquarters. Work with the consulting

[13] This information was taken from an address by D. C. Hooper, Manager, Market Planning Department, Westinghouse Electric Corporation, before the Michigan Chapter of the American Marketing Association, April 19, 1949, and from subsequent correspondence.

engineer, the architect, and the contractor is frequently necessary. These factors all have some bearing on the procedures adopted, among them for quota determination.

In order to understand the procedure used in the determination of quotas, some information is necessary on the Corporation's organizational structure. There are a number of operating divisions, such as the Transformer Division at Sharon, Pa., and the Lighting Division at Cleveland, Ohio. Each of these manufacturing divisions is responsible for profit on its line of products. Each division has a sales department which has the responsibility of making its particular line competitive in design, quality, service, and price. Most of these divisions make use of the Corporation's general apparatus field-selling organization. The Apparatus Sales Manager, to whom the field organization reports, has a headquarters staff group, departmentalized by major customer industries, such as Central Station, Transportation, Industrial, etc. The country is divided into sales districts. Each district office has a sales manager and a staff organization on the same industry basis as the headquarters office. The districts are broken down to sales branches, salesmen in the field report to branch managers, and they in turn to the district sales managers.

In the determination of sales quotas for 1950, the following steps were taken:

1. Salesmen were asked to recommend (*a*) quotas, (*b*) scheduled calls, and (*c*) estimated hours per call for each of their assigned accounts. A quota work sheet was provided so that if the salesman, the district branch, or district manager wanted to build up the recommended quotas for individual customers, product by product, they could do so. However, customer quotas were not required on a product basis.
2. Branch managers reviewed the individual customer quota sheets submitted by the salesmen and revised them when necessary. The branch managers were told that the customer quotas represented an agreement between the manager and his salesmen. They were not required to match exactly with the quota officially assigned to the branch. If the branch manager felt that he could obtain better results by keeping salesmen's quotas above likely performance for incentive purposes, he was free to do so.
3. Branch managers submitted recommended quotas by product for each customer industry. These were submitted to the district staff group for review and then, with the district manager's approval, were forwarded to the headquarters Market Planning Department.
4. The Market Planning Department obtained estimates of 1950 market potential and an estimate of percentage of market and sales potential in dollars from each of the operating-division sales managers. The dollar figures were broken down by customer industries and by sales districts.
5. The Market Planning Department then prepared a sheet on which

was recorded past sales by districts, the operating divisions' estimates, and the districts' estimates, by product and by customer industries. Spaces were provided for recording the final quotas.

6. With the above information at hand, a series of meetings was scheduled at which the Market Planning Department furnished the chairman. Each meeting was attended by an operating-division sales manager and the headquarters-industry department managers. The objective was to reconcile any differences of opinion on quotas. Consideration was given both to market possibilities and the need of the operating divisions for volume. Known specific negotiations for large orders were discussed and the Corporation's prospects of obtaining the business were evaluated. In some instances, where a serious difference of opinion existed, calls were made to the sales district concerned. Final quota figures were determined in each of these product meetings.
7. The Market Planning Department summarized the quotas to make sure that the goals were consistent with the over-all consolidated company forecasts of the Business Projections Committee before the final figures were released to the sales districts and branches.
8. The final quotas, broken down on a product basis, by customer industry, and by branch, were then submitted to the sales districts. They were advised that these official quotas were subject to two reviews during the year. Based on more definite information as to market levels as the year progresses, the quotas may be revised either upward or downward. The product goals in terms of percentage of market potential are fixed. The dollar quota, however, is subject to two revisions.

It will be observed that the districts and branches were given quotas on both a product and a customer basis, but that the salesmen may be given quotas only on a customer basis. Furthermore, the salesmen's quotas may be larger in total than the branch quotas if the branch manager wishes to use this form of incentive. The salesman has responsibility on total volume to each customer, whereas the branch manager has responsibility for product performance as well as for total volume. If the branch manager is failing to reach his assigned quota on a given product, he has available for review quarterly reports on the performance of the salesmen both by customer and product. He can then work with the salesmen who have the most promising customers using that product in an attempt to secure the desired diversity in sales distribution over the entire product line.

The reasons why Westinghouse approaches its quota-setting problem in this way lie within the nature of its markets. They are not continuous volume markets. There are no general indices of population, income, wealth, or education which provide a sufficiently accurate measure of market potentialities. Even an index of product in use or sales over a long period, as in the office equipment illustration previously given, might not be predictive of future demand. Demand

is largely a question of the rate and acceleration of economic development. To predict forthcoming demand is largely a matter of securing information on the expectations of businessmen and government officials in regard to the purchase of capital goods. Sources of demand must be sought out, catalogued, and evaluated. This requires continuous field research both by sales representatives and by the special survey technique. Only through a constant awareness of what is happening in the national economy, by way of the movement of industry locationally, the growth of new industries, the development of power resources, and shifts in the means of transportation, can forthcoming demand be forecast. Much of the necessary information must come from representatives in the field and, therefore, both the sales potential and the quotas are largely built up from a multitude of individual estimates.

In appraising the approach used by Westinghouse, it should be recognized that there are both negative and positive features involved. Broad participation in the process is likely to secure ready acceptance of quotas by those who participate. Under these circumstances, the quota is not something imposed upon the salesman by the home office but something which he has helped to construct. The process of letting the knowledge and judgment of many informed people bear upon the estimates is likely to produce reasonably accurate figures. It is often argued that those people who are in the field and in constant contact with customers should be able to make more reliable estimates of forthcoming demand than people in the home office. Although the importance of information obtainable in the field may be granted, still sales representatives are usually not trained observers, their time may be fully occupied with other tasks, and they often dislike to do the work necessary to provide well-considered estimates.

If salesmen know that the estimates which they make are likely substantially to affect the quotas which are later assigned to them and, furthermore, if compensation is in part determined by performance in relation to quota, this fact may lower their estimates. On the other hand, estimates are checked by field managers and later by the home office and a persistent failure to make sound estimates would later be revealed by data on actual sales. These factors may be sufficient to keep the estimates unbiased. Nevertheless, salesmen are not likely to have as much statistical information available—such as that on past sales, the position of competitors, product in use, and on business conditions—as trained analysts in the home office for use in making estimates of future sales. For these reasons, among others, Westinghouse and many other concerns use both approaches simultaneously.

When both approaches are used, the data secured from each are compared in order to discover whether there are any pronounced differences which require further investigation. While some variation

would be expected, too great variation suggests errors either in basic data or in judgment and the need for further analysis and negotiation. It is interesting to note that, after some experience, the sales quota figures arrived at through each of these two approaches frequently are little different and that differences between them can be compromised without much difficulty.

REVIEW AND DISCUSSION QUESTIONS

1. Review the Accuralite Company case (pp. 236–38) and attempt to answer the following questions:
   a) Is the selection of fuel consumption as an index of relative potential demand for the company's industrial line open to criticism?
   b) What other procedures might be followed for determining the volume of potential demand in each of the company's territories for its industrial line?
   c) What reasons might be adduced for the lack of correspondence, in many instances, between the estimates of potential demand and actual sales; between the varying proportions of sales, man power, and advertising in each of certain territories, as shown in Table 2 (p. 237).
2. The Accuralite Company also produced a commercial line which included barometers, humidi-guides, and different types of thermometers; also a medical line including fever thermometers and instruments for testing blood pressure. These were sold in part through jobbers and in part directly to hardware, drug, department, optical, and jewelry stores. A buying-power index by counties was used as evidence of relative potentiality for the commercial line. This index was based on population, number of income taxpayers, and number of retail outlets, equally weighted. Is a buying-power index so computed an acceptable one for the breakdown of a sales potential for products of this character? What factors other than those included in the index might influence sales?
3. Give examples of situations in which product-in-use data, corollary data, and objective-factors data may reasonably be used to indicate the relative presence of demand for a product.
4. What is a "generalized" index? Discuss the relative advantages and disadvantages in the use of an index of this type in relation to a "custom-made" index?
5. What interpretations may be placed upon variations from an "ideal" index, constructed by combining various market factors known to be related to sales through the use of the multiple correlation method, by (*a*) an index of total industry sales, (*b*) an index of company sales? For what reasons and for what products may an "ideal" index so constructed present a more truly normal situation than an index of actual sales of any one year?
6. How may a well-constructed index of relative potential demand be used by a business enterprise?

7. A manufacturer of a wide variety of pistons, piston rings, and cylinder sleeves experienced a heavy obsolesence in stocks. Complete stocks were carried at the factory and in warehouses located at twelve central points, and smaller stocks were carried at the establishments of jobbers to whom the products were sold on a consignment basis. What are the probable reasons for obsolescence in stocks? What procedures would you suggest for reducing obsolescence?
8. Review "Quota Determination—Burroughs Adding Machine Company (pp. 255–59) and attempt to answer the following questions:
   a) What are the objectives which Burroughs is attempting to achieve through the determination and use of sales quotas? (See quotation from Ray R. Eppert, pp. 808–9.)
   b) What are the indexes used for breaking down the sales potential or company sales quota to counties? What justification may be advanced for the use of each index? What factors might be taken into consideration in determining the weight which should be given to each index?
   c) How is each branch quota broken down by lines of business, i.e., by customer types? Why would it be unwise to break the branch quotas down solely on the basis of the past experience of each branch office in selling to various customer types?
   d) How are branch quotas broken down by product classification? How would you justify the use of *company* experience, rather than *individual branch* experience, for this purpose?
   e) While the data secured from the Social Security Administration and from the Office Equipment Manufacturers Institute are most useful in determining sales potentials and quotas, both have certain weaknesses which, if they could be overcome, would increase their usefulness. Comment.
9. Are the objectives sought by the Burroughs Adding Machine Company and the Westinghouse Electric Corporation in reference to sales potentials and sales quotas identical? What reasons may be given for the variation in approach to the general problem by the two companies?
10. Attempt to appraise the procedure used by the Westinghouse Electric Corporation for the determination of sales potentials and quotas, with particular reference to the advantages and shortcomings of the individual unit forecast procedure. (See "Sales Force Composite Method," *Forecasting Sales*, National Industrial Conference Board, Studies in Business Policy, No. 25 [New York, 1947], pp. 6–14, for additional information on this question.)

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PART IV

PRICING THE PRODUCT

Chapter X

PRICING AND PRICE POLICIES[1]

GENERAL CONSIDERATIONS IN PRICING

THE subject of prices and pricing is discussed at length in courses in economic theory; likewise in basic marketing courses. Thus, the student of sales management is probably familiar with the marginal cost-marginal revenue type of analysis and with analyses of pricing under monopoly, pure competition, and "imperfect" or "monopolistic" competition. Some marketing texts have also included a discussion of nonprice competition; price discrimination, particularly as affected by price legislation; and certain price policies. More attention needs to be given, however, to the strictly managerial aspects of pricing. But information on them is difficult to secure. Often businessmen are reticent about their pricing policies and procedures, in part, perhaps, because they feel a lack of competence in this area of management. Whether for this reason or a fear of action under the antitrust or pricing legislation, there has been relatively little information made available on how prices are actually set or upon the policies which govern such action. Some principles can, nevertheless, be deduced and some procedures can be outlined for purposes of guidance. At least some of the factors affecting prices can be isolated and their significance under varying conditions indicated.

Independence in Pricing Based upon Product Differentiation

The basic concept that prices are subject to management to the extent that one manufacturer's product is differentiated from that of

[1] The author is greatly indebted to Professor Harvey W. Huegy of the University of Illinois for aid in preparing this chapter and the one which follows on pricing. The materials presented in chapters xxv, xxvi, and xxvii of *Marketing by Manufac-*

others should first be emphasized. If a manufacturer's product has certain special features and these are of significance to consumers, he is not governed entirely by the market price. Some power of decision on price rests with him. Most manufacturers, in contrast to producers of farm products and raw materials, operate within this area of partial independence or "imperfect competition." The range of independence is wide, for it covers all the distance from the position of the monopolist, who has little if any competition, even from substitutes, to the position of the manufacturer whose product is, in fact, little different from those of his competitors, even though he may stress differences which are largely fictional.

While there is greater independence in price determination in some cases than in others, it should not be assumed that the number and difficulty of the pricing problems of management vary either directly or inversely with the extent of such independence. While the monopolist would not have to consider the costs and prices of directly competing products as would most manufacturers, he would be concerned, in most instances, with those of substitutes, with the value which consumers place upon his products, with the question of elasticity of demand, and with the effect of price on the emergence of competition. At the other end of the range—that is, complete nondifferentiation—there is no pricing problem for the individual producer. The only pricing question, if it can be called such, is when and how much to sell. It is a question of "accepting" or not accepting the price then prevailing in the market. The great majority of manufacturers, however, have much the same pricing problems as the monopolist and, in addition, must watch competitors presently in the market—their prices, promotion, and all other activities which may influence consumers' purchases.

It is very important for them correctly to judge and fully to recognize the degree of their independence in pricing. Usually it is not great, and the emergence of new competitors, changes in competitors' products, and the increasing availability of substitutes may, at any time, reduce it substantially. In many instances, manufacturers have thought that they could set and hold a price, but soon discovered otherwise. The healthy attitude is that of the manufacturer who resents the implication that he has little, if any, competition. Accurate judgment on the extent and significance of his product's differences as well as those of competitors' products and the probable attitude of the market toward them leads to realistic pricing. In contrast, supposed product advantages and an expectation that real advantages over those of competitors will continue to be present indefinitely will lead to faulty pricing.

turers (rev. ed.) (Chicago: Richard D. Irwin, Inc., 1951), which were the work of Professor Huegy, were made fully available to the author.

Responsibility for Pricing

While pricing is comprehended within the field of marketing, it is one of those problems which are of such great significance to the well-being of any concern that top management takes much of the responsibility for it. Production divisions are concerned with pricing through costs; financial divisions, through the control of working capital; the public relations department, through the effect of price changes on the attitudes of the public, government officials, and distributors; and legal counsel, through the need for complying with antitrust and pricing legislation. While at times marketing executives are given sole responsibility for pricing and price policies, more often than otherwise other executives participate, and final decisions are made by an executive committee or, perhaps, a financial committee on which marketing executives sit. Nevertheless, it can be argued that marketing executives have the most to contribute to pricing decisions. They are most closely in touch with the needs and attitudes of the market, as well as with competitors' products and prices. Of necessity, the administration of prices is largely in their hands. Information on trends in sales volume and on inventories in the hands of distributors first comes to their attention. Therefore, they must take primary responsibility for initiating price changes, considerable responsibility for the entire task of determining prices and formulating price policies, and almost complete responsibility for administering prices.

Objectives in Pricing

It is often stated that the objective in pricing is to maximize profits. The implication is that the manufacturer seldom, if ever, knowingly deviates from a price policy which will, even in the short run, increase profits. Such is not the fact of the matter. Witness the pricing of cars by the automobile companies immediately after World War II. Considerably higher prices could have been charged without restricting demand. Other companies also exercised restraint in pricing and did not charge all the market would bear. The reasons for so doing were probably many, but they centered upon the probable effect of maximum pricing on public relations, particularly their effect on buyers, future purchases. Perhaps prices lower than the market would permit also withheld the development of competition, but it is doubtful whether this was a strong motivating factor in postwar pricing of motor vehicles. Companies in the automobile industry apparently thought that their position over the years ahead would be improved if their prices were eminently "reasonable" during the period of flush demand immediately after the war.

Many objectives motivate business executives in the making of de-

cisions, and at times these objectives may be somewhat in conflict. The desire for additional sales volume and for expansion may well lead to lower unit profits than could otherwise be attained. Executives like to be associated with growing concerns. The measure of their success in the eyes of others may be more related to growth than to profits. In some cases, their salaries may be more closely related to the amount of business done than the dollars of profit earned. It would not be argued that businessmen consciously place prices at a level which they know will diminish profits, but only that their response to all the factors involved may well have that effect. Eiteman argues cogently that the businessman's preoccupation with inventory changes and turnover rates on working capital are likely to lead to prices which do not result in maximum profits.[2] His analysis suggests that the quantities of various products produced by manufacturers are greater and the prices lower than they would be if businessmen actually priced their goods on the basis of the conventional theory of pricing under imperfect competition.

Nevertheless, over the long run, management usually desires to maximize profits. Nor would any other objective be wise in a free enterprise economy. Management's first obligation is to operate a successful business from the profit point of view. All other obligations—those to stockholders, workers, and to society as a whole—can only be met to the fullest extent if profits are maximized. Profit is the evidence of successful management and, ultimately, the means by which an enterprise continues to exist. A profitless business soon becomes a social liability—it cannot command capital, engage in necessary research in technology and management, modernize its equipment as technology progresses, and produce at low cost in human and material resources. When a business fails, many costly adjustments are necessary. Both labor and management must find new jobs, productive facilities may be wasted; and, if the goods formerly produced were of a durable character, those in the hands of consumers lose some of their value because of difficulty in securing service and replacement parts.

Approach to Pricing Problems

There appears to be a consensus that pricing by many manufacturing concerns is a haphazard process, often opportunistic or at least not dictated by long-run considerations. While there are notable exceptions, discussions on price determination with executives often lead to the conclusion that stated principles are unclear in their minds; that stated policies which supposedly govern their price decisions are not,

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[2] Wilford J. Eiteman, *Price Determination* (Report No. 16, Bureau of Business Research, School of Business Administration) (Ann Arbor: University of Michigan, 1949).

in fact, followed; and that they do not recognize fully the probable effects of pricing decisions. One who attempts to investigate pricing practices soon begins to feel that defensible pricing policies have not been evolved and clearly enunciated and that there is insufficient continuing research work in this field. Admittedly, the effect of price changes may be difficult to isolate, for many factors play upon demand; but problems of this type do yield themselves to analysis.

Guidance in pricing can be secured through research, followed by an attempt to formulate sound and defensible price policies. What is needed is a painstaking attempt to isolate the factors which affect prices, to determine their relative importance and their interrelationships, and to increase the accuracy of predictions of the movement of these factors, particularly in cases where prices are established to prevail over a considerable period.

The Environment of Price Determination

One of the difficulties involved in a determination of principles and policies in this field is the lack of uniformity in conditions under which management operates. The principles and policies followed seem to vary from industry to industry, from company to company, and from time to time. Perhaps this can be expected in view of variation in the degree of distinctiveness of different manufacturers' products. Also, such things as the sheer size of a concern, the extent of its dominance in its industry, its market coverage, its manufacturing costs relative to those of its competitors, and its channels of distribution will all have an effect on pricing. Moreover, factors affecting prices vary in importance in different industries and different concerns in the same industry.

When manufacturers are faced with the pricing of new products, the problems involved differ substantially from those which arise when prices on older products need revision. If a manufacturer is entering an established field where other manufacturers have the advantage of experience and prestige, his pricing policies will reflect that fact. If the product is entirely new, still different problems arise, particularly whether the product should be so priced as to discourage the rise of competition. Much more by way of market study is needed to determine probable consumer attitude toward the product, and thus the probable extent of demand. Studies of this character may condition the nature of the product itself and thus its price.

Enough has been said to indicate that consistency in price policies and methods of approach to the pricing problem as between industries or even companies in the same industry cannot be expected. Yet each concern should try to develop its own consistent approach to price policies which direct it toward the attainment of desired business

and market objectives. Change over the years is, nevertheless, to be expected because the American economy is dynamic. Full consideration of the questions surrounding price policy decisions and careful analysis of the facts are essential if the executive is to make decisions which are well adapted to the individual circumstances of his concern.

Classification of Pricing Problems

Pricing problems may be roughly classified as problems of price determination and those of price administration. The first problem under price determination is that of seeking a *level* of prices for each of a company's product lines. Often the problem arises as a needed adaptation to changes in general business conditions, more specifically to increased or to decreased costs of labor or raw materials, or to changes in competitors' prices. A second phase of the problem is to determine the right price relationships among the various members of a company's line. Varieties or sizes of a product or models in a line must be priced individually, but with some reasonable relationship to each other, for they may be substitutional. The pricing of repair parts and of extras also falls within this category.

In contrast, the administration of prices presupposes that basic decisions as to prices have been made but that minor price variations are necessary. Included here are questions of discounts, delivered versus "at factory" prices, and arrangements of various sorts, such as those in reference to notification of price changes, protection against price changes, price maintenance, etc. While discounts and the question of "where" the price applies might be considered as price determination because the manner in which they are handled may make a substantial difference in what buyers actually pay for a product, still the basis for price difference is not the product itself but such considerations as the type of the buyer, where he is located, how much is purchased, or the time at which purchases are made.

Another basis of classification is the timing and individuality of pricing decisions. We speak of established versus negotiated prices. For most products, prices are determined in advance and communicated to potential buyers through salesmen or published price lists. In some industries, however, particularly where much of the product must be made to order, prices are negotiated—that is, the subject of bargaining between the buyer and the seller. Even established prices may be only the starting point for later negotiations if the seller does not follow a one-price policy. As a case in point, automobile prices are not "firm" although published, for negotiation takes place over the price of the trade-in, and the price of the new car may be varied thereby. When variations from a predetermined level of prices or established prices are negotiated, it constitutes price administration.

The remainder of this chapter will be concerned with price determination; the chapter which follows, with price administration.

FACTORS INFLUENCING PRICE DECISIONS

First, it should be recognized that there are a multiplicity of factors in any specific case which influence price decisions. Although classification is difficult, most of the factors which affect prices can be included under one of the following headings: the nature of the market, costs, the desired return on investment, competition, the marketing methods used, and considerations of public policy. These will be considered in turn, followed by a discussion of the nature of the pricing process, the pricing of new products, product-line pricing, and, finally, the pricing of replacement parts.

The Nature of the Market

Response to Product Utility. This factor needs relatively little discussion here because it was considered both in the sections on planning the product and investigation of the market. It was pointed out that, in a capitalistic economy, production is guided by consumer choice, acting through the pricing system. Each consumer expenditure is, in one sense, an alternative to another as the purchasing power of consumers is limited. Whether a product is chosen depends upon the utility which the product will furnish, the importance of that utility in the consumer's mind, and what part of his total purchasing power he needs to relinquish in order to get it. In other words, consumers rank their wants and establish priority schedules for purchasing many products, although priority may almost unconsciously be given certain products and thus their purchase becomes habitual. A decrease in income will, nevertheless, result in a reconsideration of priorities and some goods or services which were considered almost "indispensable" may no longer be acquired.

In most consumers' goods, the utility received is subjectively determined. The extent of the utilities which products furnish must be determined largely through consumer surveys. The utilities furnished by producers' goods can be determined more objectively and with greater accuracy. There is usually some possibility of measuring the savings which can be made by a product's use, and these, when capitalized, indicate the upper limit of price which the buyer can afford to pay for the product. For instance, if it can be proved that the installation of a certain piece of equipment will reduce production costs by so much per unit, total savings under a normal production schedule can be computed and capitalized at whatever rate the management thinks appropriate. While other considerations—such as (1) the avail-

ability of competitive products and the savings which they will make possible, and (2) the unwillingness to junk old equipment unless the savings from new equipment are large and reasonably sure over a considerable advance period—will also affect the price, the point of departure in pricing will be capitalized savings.

Response to Price Changes—Elasticity of Demand. The market problems for pricing are to estimate the number and type of potential buyers and the amount of product which they might use, in total and at varying levels of price; and to determine how well-informed they are about the product and their dominant buying motives. Their numbers or their probable demands at various levels of price or of purchasing power are referred to as "stratification" of the market. It is important for the seller to recognize that he may have many markets in the sense of strata of purchasing power, interest in his product, ability to use it effectively, etc. The top strata will consist of some potential buyers to whom the product is very important and some who, because of ample purchasing power, will buy it if they want it, even though the price is high. The manufacturer may decide that his greater advantage lies in cultivating only this top strata of the market, at least initially. Both price and per-unit profit can then be high; but, as the great majority of potential buyers will probably be excluded by the price, the number of units sold may be small. In contrast, if the manufacturer decides, through a lower price, to make his goods available to the "mass" market, both price and unit profit will be lower, but the volume of sales will be higher and, perhaps, total profits likewise.

Elasticity of demand as to price—that is, the extent of sales increase or decrease in response to a change in price in a market at a given point in time—varies greatly from product to product. For some basic food products, such as salt or bread, it is little. For luxury products, such as yachts or diamonds, probably there is also a relatively inelastic demand. If a luxury item is purchased for the prestige which its ownership affords, too great a reduction in the price level for it might result in a reduced volume of sales; for example, a negative elasticity might appear. If so, a producer might actually destroy his market rather than extend it by price reduction. For most products, however, price reduction does tap new levels of demand and therefore may be a desirable course of action.

While the demand may not be elastic for all producers of a product, it may be elastic for an individual manufacturer through a redivision of existing demand in his favor following price reduction. In other words, price reduction by a manufacturer, while it may not bring about much increase in total sales of a product type, may substantially increase his sales. If demand is elastic, however, an increase in his sales will not necessarily decrease the sales of his competitors, thereby inciting retaliatory action on their part. Under such circumstances, the

individual manufacturer with a realization of the effect of price changes on demand is taking action which the industry as a whole might well take to expand output.

It is essential that a manufacturer attempt to understand the nature of his market—in particular, how the demand for his products will be influenced by price changes and changes in purchasing power (income elasticity) and how competitors are likely to react to price changes. Through sales records, he can secure information on types of buyers, on how much they purchase, and on trends in purchases. Through an exchange of information, similar data may be secured from other companies. Experimentation with prices at different levels in like markets at a given time may furnish useful information on the effect of price level on the volume of sales. In making these experiments, the analyst should recognize not only the necessity of holding constant all factors except price, but also that, while little elasticity may be shown in response to initial price reductions, particularly small ones, further experimentation may reveal points at which sales are substantially increased. In other words, the results of price change may be discontinuous. For instance, a product's price may have to be lowered considerably before sales are made to new sectors—by type or location—of the market. Then, also, there may be a considerable time lag before a price change penetrates the consciousness of buyers and is reflected in their purchasing habits.

Response to Changes in Income Levels. Manufacturers and processors respond in pricing to changes in income levels, perhaps almost immediately, as in the case of perishable or semiperishable food products, or over longer periods, as in the case of durables. Meat products furnish an example:

> When people have to economize and must spend less money for meat, buyers all along the line reduce their bids, and the prices of both meat and livestock fall accordingly. When incomes are rising, the situation is completely reversed. When people make more money, they are eager to buy meat. . . . If the price did not rise, meat packers would quickly run short of supplies, and would be unable to take care of the requirements of all their retail customers. Moreover, meat packers cannot refrain from raising their selling prices unless they are willing to operate at a loss because rising meat prices mean a rise in meat packers' raw material costs. Competition forces price changes to be reflected quickly all the way back to the livestock on the hoof. Each dealer and each meat packer knows that if he does not pay a little higher for the products he wants, somebody else will—and get the business.[3]

It is a matter of common observation that in years of depressed business, widespread unemployment, and low purchasing power, consumers try to economize in their expenditures, buying smaller quantities of fuel, cloth-

[3] Swift & Company, *Year Book, 1947* (Chicago, 1948), pp. 15–16.

ing, household furnishing, and the like. One would expect to find that in line with the same general tendency, consumers would reduce their meat consumption. Yet there is no evidence to show that the quantity of meat consumed in years of depression is curtailed in the slightest.[4]

The foregoing quotations indicate that a nice adjustment of prices to reduced incomes takes place through an awareness, on the part of all parties concerned, of conditions of supply and demand and through competition.

For durable goods whose purchase can be postponed, changes in income levels likewise influence price, but in a less immediate and direct manner than for perishables. Purchases are usually reduced much more than proportionately with income. Price changes within the area permitted by cost may have little effect on demand. Income level will be more determinative of demand than price or price changes. Therefore, the manufacturer must be aware of changes in income levels and must attempt to ascertain what effect they will have on demand and on the prices which he can secure for his products. It should be noted in passing that elasticity of demand at a given price level is one thing and that adjustments to changes in income levels is quite another. More will be said on price adjustment to income levels later.

Prices the Market Expects. Manufacturers are governed at times in their pricing by what the market expects—that is, by customary prices and prices which permit specific items to fit into price lines. If the consumer expects to buy a certain item at a certain price, it is difficult for the manufacturer to secure an adequate sales volume if he sets a price which, together with transportation costs and distributors' margins, makes necessary a retail price at a higher level. Strenuous efforts have often been made to hold a retail price constant, particularly for convenience goods such as candy bars, even though costs have increased substantially.[5] Hershey bars which still sell for the traditional price of five cents are a case in point. Adaptation to increased costs is made in the amount or quality of products in order to hold price constant. In the pricing of clothing, particularly women's dresses, manufacturers must be fully aware of the price lines of department stores and price specific items so as to permit sales at a certain level—let us say, $39.95—and still provide the usual markup.

The reduction in the value of the dollar since the late thirties has set aside many customary prices and scaled price lines upward. The dilemma faced by manufacturers and distributors through the combination of rising costs and customary prices, if it becomes acute,

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[4] Swift & Company, *Year Book, 1932* (Chicago, 1933), p. 21.

[5] See "The Nickel Drink Is Groggy," *Fortune*, Vol. XLIII, No. 1 (January, 1951), p. 78.

cannot be resolved solely by cost reduction. Nor is it wise under most circumstances to resolve it by a reduction in quality. Nevertheless, if consumers expect goods at certain prices and distributors are reluctant to handle the products of manufacturers who do not conform through their pricing decisions, an effort to conform should be made until it can no longer reasonably be expected. In any event, a manufacturer should not depart from customary prices capriciously, but only after full consideration of the possible results of such action.

The Influence of Cost

It seems both natural and logical to many business executives that price determination should proceed from costs. When thinking of the pricing problem, the questions "What does the product cost?" and "What profit should we expect?" seem much more answerable than "What will the product bring in the market?" Yet many informed people would argue that the latter question is of greater importance for pricing than either of the other two. Nevertheless, most businessmen think in terms of factory cost, plus distribution cost, plus a reasonable return, as the proper procedure for determining prices. Those who emphasize the nature of the market as the principal determinant of price would argue that market price, less distribution costs, less manufacturing costs, establishes the profit figure. Of the two, the second formula is more realistic because it emphasizes profit as the final objective, and because the first formula, if followed rigidly, ignores the potential buyers' needs, attitudes, and abilities to purchase. The amount which a company will pay for a piece of equipment, or a consumer will pay for a garment, has no necessary, immediate relation to the costs of designing, manufacturing, and selling these products. The strength of demand, as well as the cost of supply, determines prices. Moreover, the first formula presupposes that a "reasonable" return can be determined and, once determined, can be secured, whereas such a return depends largely upon the volume which can be sold.

Cost is pertinent as a factor conditioning price, but it is only one among many factors and is not necessarily the most determinative. In the long run, of course, all costs must be covered by returns if a business is to survive, but, in the shorter run, the strength of demand and of competition is more determinative of price. Cost, volume of sales, and price are inextricably interrelated. Thus the point of departure in pricing can be from a number of different bases of which cost is one —a convenient one, but not necessarily the best. But, regardless of the base from which the price determining process is started, other "modifying" factors must be taken into consideration if sound judgments on prices are to be made. The only valid objection to cost as a point of

departure is that too much weight is, thereby, often given to it in the price determination process.

Limitations on Cost Data. While costing is a technical problem which need not be considered here, something should be said about the proper attitude toward cost data and the relevance of different types of cost data to the pricing problem. Costs are estimates built up from a detailed study of operations. They are not always highly accurate, particularly over time. Nor are the assumptions on which they are based tenable under all circumstances.

> Accounting figures are a blessing in that they provide a means of expressing the ebb and flow of a business. They are a curse in that they imply an air of accuracy and finality which is misleading. The historical cost of any product involves cost allocations based on judgment, opinion, and custom and is subject to [many] variations. . . . Over a period of time, a body of cost information can be built up so that it is possible to develop average product costs that may be of help in pricing, particularly where prices have to be set which will be maintained for some time in the future, but the current cost of a product should not be taken literally for current pricing purposes. . . . That unit product costs, either actual or standard, have often been accepted too literally by management and drafted bodily as the basis of prices, without adequate attention to other factors, has not usually been the fault of the cost accountant.[6]

This quotation suggests both the limitations on cost data and the possibilities in their use.

For purposes of pricing, a distinction should be made between the usefulness of data on past costs, current costs, estimated future costs, and standard costs based upon a concept of normal or standard volume. Past costs are not relevant for current pricing unless operating conditions are remarkably stable. Current costs are more useful but ignore the fact that, in many instances, the prices being determined will probably hold for some time in the future. Estimated future costs are a better guide for pricing because they constitute the best judgment of management as to what the costs will actually be while the determined prices are in force. Thus, at the beginning of a manufacturing period for new models—perhaps once or twice a year—costs are usually determined for each unit of a line, and known or probable increases or decreases in costs of raw materials, labor, and administrative overhead are taken into consideration. In the case of automobiles or refrigerators, for instance, the prices announced at the beginning of a model year stand unchanged unless unanticipated and substantial cost changes occur. However, price changes have recently been made in these industries during the model year because of increased wage rates negotiated between unions and management.

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[6] Clarence B. Nickerson, "The Cost Element in Pricing," *Harvard Business Review*, Vol. XVIII, No. 4 (Summer Number, 1940), p. 423.

Relationship between Cost and Volume. Costs are, of course, a function of volume in manufacturing and processing industries. When businessmen say that the approach to pricing is through cost plus a reasonable profit, the approach is actually through cost *at some volume base*, either (1) current volume, (2) a sales potential figure which is the company's best estimate of volume needed during a forthcoming period, or (3) "normal" or standard volume. Current volume has no real significance for establishing a price which will hold for some time in the future unless there is good reason to believe that operations will be maintained at a constant level or a company despairs of estimating future sales. Much can be said for basing costs on a sales potential figure, even admitting the difficulties of prediction. However, it might be argued that the sales potential is in turn a function of price; that some level of price for the product in question must necessarily have been in mind when the demand estimates were being made. This is undoubtedly true in those situations in which demand is very responsive to price changes—that is, where there is considerable elasticity of demand present. For producers' goods, however, and for many consumers' durables, it is doubtful whether small changes in prices, even substantial changes in some instances, greatly influence the takings of the market. Rather, the level of demand is more a function of executives' appraisal of business prospects in the one case; the level of consumers' income and its likely trend in the other. At least, anticipated cost, based on a sales potential figure, is a more reasonable point of departure in pricing than cost based upon the level of current operations.

Some companies take as a base the average expected volume over a much longer period and think in terms of "normal" or "standard" volume. This may be defined as the *normal average rate of plant operation.* Using this volume base for costing has much to commend it if the cost figures are to be used as a basis for pricing. If actual output is used and output is below the standard volume, unit cost would be high simply because overhead costs would be distributed among fewer units. Basing prices on higher unit costs might result in prices so high that they would further restrict sales when additional sales volume was greatly needed. Such a restriction in sales would increase costs still more and the upward spiral would continue. Conversely, if output is above the standard volume, basing prices on the lower unit costs achieved by spreading overhead costs over more units might result in prices so low that they would further stimulate sales already abnormally high. Lower costs, lower prices, expansion of output to meet consumers' demands, and the higher level of living which results are much to be desired. However, in durable goods and, particularly when a market has reached that stage where most of the sales are for replacement purposes, costing on the basis of actual volume rather

than standard volume is likely to be a deterrent to stabilized operations. Through pricing, buyers are induced to purchase earlier than they otherwise would, later sales volume is thereby reduced, and wider fluctuations in output result.

Basing costs on standard volume recognizes the fact that output will not be the same year after year, that seasonal fluctuations are to be expected, that there must be production capacity for peak loads, and that capacity is created for use over many years. Costs of plant and equipment must be recovered, but it is not reasonable to expect that the same amount should be recovered each year regardless of the fluctuations in output.

Contribution of Cost Data to Pricing. Cost data have many uses in marketing only indirectly related to pricing. Costs in reference to prevailing prices will indicate whether a concern should produce certain products, and thus broaden or narrow its line. Costs of various varieties of the same product in reference to the prices for which they are sold will indicate which specific items have the longest profit margins. Thus, relative sales emphasis can be given wisely. A knowledge of costs may stimulate effort toward cost reduction, perhaps through modification of the product itself. Furthermore, a knowledge of his own costs is revealing to a manufacturer in regard to the probable costs of his competitors. Likely competitive action, such, for instance, as reactions to price changes, may be thereby gauged more accurately. In summary, cost data gives management additional information on which to base many marketing decisions.

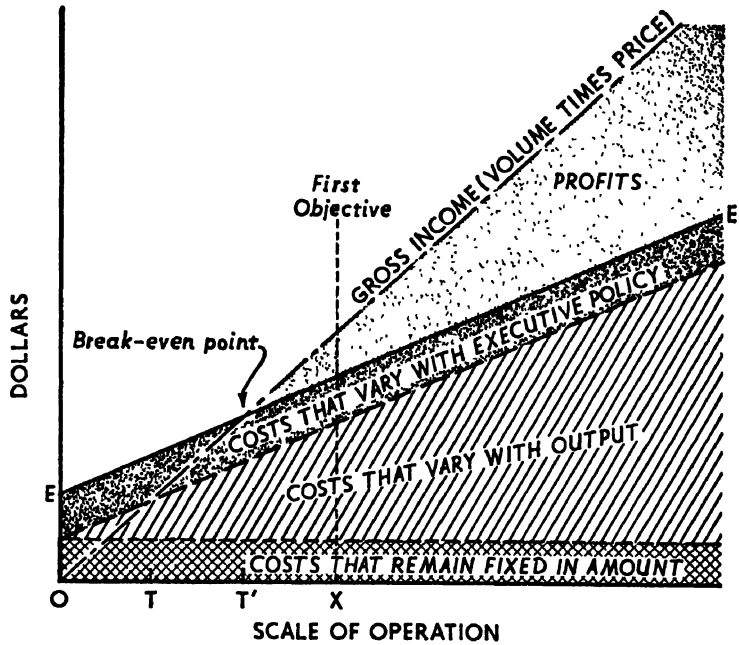
Particularly in regard to price determination as such, cost is one member of the basic triumvirate of cost, volume, and price. No one of these can reasonably be considered alone because of their close relationship. One must think of what effect a suggested price will have upon volume and what effect it will have on cost. One author said that "cost should constitute a resistance to the lowering of selling price in the short run as well as in the long run, and [that] it cannot do this if it is ignored or if knowledge of it is inadequate. Used with common sense, the utilization of cost, not as the basis of price but as a resistance to the lowering of price, should not introduce undue rigidity in pricing." [7] But, if cost constitutes a resistance to price reduction, it is determinative of price under certain circumstances, probably much more so over the long run than over the short run. At least, with cost data available, prices which do not cover total outlays will not be set unwittingly. Surely costs cannot be ignored, nor should the knowledge of them be inadequate.

Break-Even Analysis. One of the effective tools of management which points up the relationship between cost, volume, and price is

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[7] *Ibid.*, p. 428.

FIGURE 3.—A TYPICAL BREAK-EVEN CHART*



* Adapted from Wilford J. Eiteman, *Price Determination* (Report No. 16, Bureau of Business Research, School of Business Administration, University of Michigan) (Ann Arbor, 1949).

the break-even analysis. A typical break-even chart is presented as Figure 3.

It will be observed that costs have been divided into three categories: costs that remain fixed in amount—interest, rent, depreciation, taxes, etc.; costs that vary with output—labor, materials, etc.; and costs that vary with executive policy—salaries, advertising, other promotion, etc. The gross income line (volume times price) on this chart represents the expected gross revenue at various possible levels of production. A concern would expect to operate in the red with only *OT* output and would cover all costs and thus break-even at *OT'* output, but *OX* output would be needed to make a reasonable profit. Thus production at the *OX* level would constitute a reasonable first objective, perhaps one that would yield what was considered to be an acceptable profit on sales or return on investment.

While the implication is often made that a price determined through the cost approach *is* the price actually charged, further discussion usually reveals that it is only a price level from which adjustments are made based upon anticipated changes in business conditions, levels of purchasing power, and competitive conditions. In other words, the preliminary price figure based upon costs is tested in an

attempt to determine what effect it will have on sales volume and is then modified if volume considerations so dictate. Of course, the analysis may lead back again toward costs in order to seek a reduction in them which will not materially affect the demand forthcoming, either through lesser acceptability of the product itself or a decrease in promotion. In fact, even though the approach is through cost, the market, including competition therein, is the principal determinant of price; cost plays a secondary role, although an important one.

Since the break-even point is that volume level where average total unit cost equals price, every possible combination of prices, sales volumes, and costs results in different break-even points. Management need not regard any of these elements as fixed. Any one of them can be changed through managerial decisions; but with a change in one, assuming demand elasticity and the presence of nonvarying costs, the others must necessarily change also. With an accumulated knowledge of costs in relation to volume, a concern can determine what price will be necessary to break even or to achieve any desired level of profit. Then it is a question of forecasting, through an analysis of the market and an appraisal of competition, whether, at this price, sales of the necessary volume can be made. After a price is set and operations go forward, sales and inventories are watched closely. They will soon furnish evidence to prove whether the price was set too high to achieve the expected sales volume.

The Desired Rate of Return on Investment

A variation of the cost factor as a determinant of price is the rate of return desired on investment. The starting point is a decision on the annual average rate of return which should be expected on the capital employed. Obviously, many factors must be considered in setting this rate, among them the distinctiveness of a company's products, a company's place in its industry, the possibilities of further innovation, and the likelihood of continuing expansion. It is management's best estimate, but only that, of the highest rate of return attainable, commensurate with capital turnover and the enjoyment of a further healthy expansion of the business.

There can be little doubt that businessmen often think in these terms, particularly if they approach pricing from the side of finance rather than marketing. It is a question of determining costs on various volume levels and adding to each cost figure the amount necessary to cover the total investment at the selected rate in order to secure a first approximation of price. A company may be particularly interested in standard volume as previously discussed. The price approximation, in that case, would be the price which, at standard volume, would yield the desired rate of return on total investment. It should

be emphasized that a price so computed would simply be a point of departure for later adjustments based upon affecting factors with a shorter-run influence. It is a useful guide to judgment rather than a sole determinant of specific prices. These, it should be recognized, must in part be dictated by conditions in the market at any given time.

The Influence of Competition

All manufacturers, even those with highly differentiated products, are keenly aware of competition and of the necessity of taking it into consideration in pricing. They resent an implication that they have no competition and almost without exception are able to prove that competition exists and affects their pricing. Competition may come from other manufacturers with markedly similar products. It may come from those with products which are substitutes. The competition between carpet sweepers and vacuum cleaners is a case in point. Both products furnish the same utility but in varying degree. Even though there is no direct product competition, the manufacturer is competing for a portion of the consumer's purchasing power unless his product is highly indispensable, and there are few such cases. Finally, there is always the threat of potential competition which may result from improved technology and product development. Many manufacturers are acutely aware that their pricing decisions can either stimulate or discourage the emergence of competition.

Appraisal of Competition. In the area of imperfect competition, it is a truism that a manufacturer should know his competition. In practice, this means that information must be secured continuously about competitors' products, prices, promotional activities, and services to customers. Anything which affects competitors' positions in the market is of significance, whether it be of a favorable or unfavorable character. First, there should be an unbiased appraisal of competitors' products in order to determine their strong and weak points, both absolutely and relatively. A manufacturer's own product should be included in this appraisal. Product testing of this character is habitual practice on the part of many concerns. The reason for it in regard to pricing is that direct price comparisons are almost meaningless, unless the competing products are nearly identical, or unless prices are related to some measure of relative quality, distinctiveness, or utility. The important question is one of the comparative values offered the consumer. Nor are values entirely functions of product quality and price. Services offered also are included in an appraisal of comparative values, and promotional activities may so influence the consumer that actual values no longer govern. Therefore, the manufacturer should go beyond product and price comparisons and attempt to discover

what consumers think about competing products, including his own.

Appraisal of competition may be a routine matter which is accomplished in day-to-day operations, or a more difficult one which requires special departmental assignments. For instance, in the packing industry, salesmen out of branch houses soon discover whether they are being undersold on certain items. The information is relayed to branch managers and soon goes to product departments at the home office. Many items are identical, and the quality levels of packaged products under brands are known by all companies. Product qualities and prices can be related without difficulty and comparative values determined. Therefore, price parity, in relation to quality, becomes a virtual necessity. Because of the constantly shifting demand and supply situation, branch managers are given considerable authority to change prices in order to meet competition as it appears and to clear stocks which are deteriorating. Competition is exceedingly active, evident, and subject to appraisal.

In contrast, the appraisal of competition for durable goods, in which differentiation of product is great, presents problems which are much more difficult than those previously indicated. Suffice it to say that such problems are not handled well if handled haphazardly. Departmental units must be given responsibility for product testing. As there are not day-by-day contacts with buyers, special efforts must be made to secure knowledge of competitors' sales, prices, and relations with customers. Avenues of communication must be provided so that information on competition gets to the proper groups in the home office. At times it is necessary to make field surveys to determine just why competition is particularly strong in certain areas. In one particular instance, a manufacturer of consumers' durables visited every retail outlet which handled such goods and many recent purchasers in a Midwestern territory in an attempt to discover why competitors were getting a larger share of the market there than elsewhere. "Knowing competition," with all that term implies, is not an easy task, but it is an essential one if marketing management, including pricing, is to be effective.

Price Policies Flowing Directly from Competition. It should not be inferred from this caption that the price policies which will now be discussed are dictated entirely by competition, but only that they largely emanate from it. Firms differ markedly in the extent to which they act independently on price. Some firms, by virtue of size, standing in their industries, marked differentiation in their products, or by common consent, become price leaders and other concerns follow. Yet, in some industries, there appears to be no leadership of this character; rather any one of many companies may probe the market with a price increase or reduction and then see what happens. Not only sales but also competitors' actions are watched carefully. All pricing

is basically experimental, but some concerns experiment more freely than others and some have sounder bases from which to proceed. Price changes should be governed by policies carefully formulated and clearly stated for purposes of guidance. Some of these policies will now be considered.

1. Policy of Meeting Competitors' Prices. This is simply a "follow the leader" policy. While it does not appear in the least complex, administrative difficulties do arise when a concern is operating in the area of imperfect competition. Meeting the market price in wheat or in coal is not difficult; in fact, it is almost mandatory if sales are to be made. Meeting the market price in floor coverings or household equipment, in contrast, involves a study of quality differences, variations in market acceptance, and other factors bearing on competitive position.

For small concerns in an industry which has strong price leadership, this policy has much to commend it. If followed with care, it does lead to a competitive price and one which is justified on the basis of comparative values. If followed haphazardly—that is, without an adequate knowledge of competitors' products and prices—the prices established may not be truly competitive in the sense of meeting the market. If prices are set at any unjustifiedly high level, sales volume will suffer; if they are set too low, they may provoke retaliatory action and further price reductions which a small company is ill prepared to stand. Small companies are not in a good position to determine the level of prices in their industries; thus, a "follow the leader" policy, intelligently administered, often makes good sense.

2. Pricing below Competitors' Prices. A deliberate policy of underselling the market on goods of similar quality may proceed from any one or more of a number of conditions—among them, an aggressive or expansionist attitude on the part of executives. A particularly favorable cost situation may suggest and also justify the policy. If other concerns are firmly entrenched in the market and have wide acceptance for their products, underselling may be necessary in order to compete effectively. Price is often used as a substitute for promotion; for example, a lower price rather than promotion primarily is depended upon to make sales. In a sense, under such conditions, the price is not lower or, better stated, the value given may not be greater because subjective value in a product is often a result of promotion. Greater assurance in purchasing and greater confidence in a product are cases in point. Nevertheless, the prices quoted would be lower if price were featured rather than promotion.

The channel of distribution selected may suggest or even dictate this policy. For instance, if distribution is sought through chain stores or mail-order houses, pricing below competitors who are selling direct or through wholesalers may be necessary. Finally, a manufacturer may believe that the elasticity of demand for his products is such that

lower prices will result in greater volume, that greater volume will lower his costs, that further expansion will then be possible, and that, through this process, total profits will not only be increased but consumers will also benefit greatly. However, if there is little elasticity of demand present, underselling by a manufacturer, although it may immediately bring about a redivision of total demand in his favor, invites retaliation and a price level under which no one can make profits. Before initiating such active price competition, a company will want to make sure that it is fully prepared for the possible competitive consequences.

Underselling may be accomplished either directly through price quotations or by indirect and less noticeable methods. Through various types of service, free deals, special discounts, freight absorption, premiums, product warranties, and other such devices—all of which will be discussed in later chapters—prices may actually be reduced, though not apparently, below the market level. Furthermore, these forms of price reduction may assume greater importance in the minds of buyers than equivalent reductions in the prices quoted. They may also help to accomplish objectives other than an immediate increase in sales volume as will be noted in the section on planning the sales effort.

3. Pricing above Competitors' Prices. It is doubtful whether manufacturers ever deliberately price products "above the market" in the sense that they knowingly place higher prices on their products than prices placed by competing manufacturers on products with essentially the same characteristics and of the same quality. Rather, it is a policy of not competing actively pricewise, but, in contrast, of stressing quality, assurance in purchase, responsibility of the seller, service, and other non-price considerations. The effect may well be to set a price above those of some competitors on a value-given basis, but comparative qualities are often difficult to appraise, and nonprice considerations even more difficult; therefore, the policy may be successful.

Pricing above the market may have still another connotation. The market price may be thought of in terms of the price on some standard model, or, perhaps, a customary price for a particular article—one which is adhered to generally by all competing concerns. Pricing above the market may then be thought of as going to the market with merchandise of somewhat higher quality and distinctiveness, where active competition may or may not be encountered, and pricing accordingly. If a manufacturer's products are more distinctive than competitors' products, if certain features are protected by patents or copyrights, pricing above the market, in this sense, is sound policy.

A policy of producing and selling products in the higher ranges of quality and distinctiveness which must command premium prices

places considerably more responsibility on marketing executives than meeting or underselling the market. It is a part of a general strategy which also includes aggressive advertising, salesmanship of high quality, and constant attention to product development. A firm must be effective in competition with other concerns if this policy is to be followed successfully, but under such circumstances it may yield exceptional profits.

4. Pricing to Deter Emergence of Competition. When a company develops an entirely new product or improves an old product to such an extent that it becomes markedly distinctive, considerable independence in price determination can be exercised *until* active competition appears. Either the protection given through patents and copyrights, continuous and significant product improvements, or pricing can deter the emergence of competition. The advantage of being first in the market is often transitory and patents may not be watertight in the sense that they will fully prevent the development of similar products or products which will furnish the same utility. Nor may there be much likelihood of product improvement in the near future. Perhaps the manufacturer's best weapon is to make it unattractive for others to enter the field. This can be done by following a pricing policy which quickly makes the product available to the mass market. In contrast, initial price could be set at a much higher level—one which would induce purchases only by those individuals or concerns to whom the utility which the product offered was of major importance. More discussion of this policy will appear shortly under pricing of new products.

Marketing Policies and Methods

It is a truism that the policies of a concern must form a consistent whole if the best results are to be attained. Therefore, pricing must be considered, not separately, but in view of other policies and methods, particularly those of a marketing character. Moreover, this applies to the price level as well as to price administration. Some of the more important policies will be discussed briefly.

Questions of Location and Market Coverage. The location of the manufacturing plant in relation to the market cultivated and to plants of competitors will influence prices. Many manufacturers have what might be termed an "area of competitive advantage" of greater or lesser size depending upon the proximity of competitors' plants and the importance of transportation cost in the final cost to the consumer. Within this area, higher prices can be charged than those of competitors who produce at distant points simply because transportation cost is less. Often this takes the form of a higher net realization if prices are quoted on a delivered basis; that is, the same prices may be

quoted by competing companies but the company which absorbs the least freight will secure the highest net price. If a manufacturer has no near-by competition and, as a matter of policy, does not go far afield for sales volume, his quoted price and his average net realization per unit of sales may be at a considerably higher level than they would be with more widespread sales. Whether this would be sound over-all policy depends largely upon the relationships between cost and volume at different levels of output and the intensity of demand near the production unit. Market coverage, questions of expansion and the optimum size of the production unit, and questions of pricing are thus very closely interrelated.

Type of Market Solicited. If it is the policy of a company to specialize on sales to many small buyers or, in contrast, to large buyers such as the chain stores or mail-order houses, the policy followed will materially affect prices. These large buyers, who feature retail sales at low prices, will force the manufacturer's price down below the level he could secure from small buyers. Although pricing legislation attempts to prevent discriminatory pricing to buyers of different size and type, undoubtedly some of it persists. Some manufacturers sell to only one class of trade, thus largely avoiding the question of discrimination. While prices in terms of basic returns to a manufacturer from sales to more than one type of market may not differ greatly, quoted prices will differ, for they are in part a function of the channels of distribution selected and the extent to which demand creation is performed by the manufacturer or left to distributors. Quoted prices will be considerably higher than they otherwise would be if sales are made directly to retailers or consumers, and if extensive consumer advertising is carried forward. Stated otherwise, a manufacturer's prices must reflect his marketing costs and these in turn are a reflection of his marketing policies and methods.

Service Policies. Warranty and service policies in reference to producers' goods and consumers' durables may have a considerable bearing on prices. In particular, for those products which require a prior survey of needs, demonstration and installation as well as after-service, service costs may be a substantial part of total product cost. Service costs may be recovered in the price of the product itself by means of separate charges for each of the different classes of service, or in part by each. Bases for a decision on this question will be considered in a later chapter on warranty and service. Suffice it to note here that the decision made must be a factor in price determination.

Trade-in Policy. Acceptance of trade-ins has become habitual in high-value consumers' durables and, to a lesser extent, in producers' goods. As a consequence, it has become a factor in pricing, but probably more in price quotations than in net realization. The question involved is whether the establishment of a higher price, thereby mak-

ing possible higher dealer margins used in part for higher allowances on used merchandise for trade-in purposes, will result in a higher net price to the manufacturer or a higher volume of sales than a lower price initially. It is often argued that consumers shop for trade-in allowances, that they are more interested in selling a piece of used merchandise (a car, for instance) than in buying new merchandise. Perhaps some of them assume that the prices quoted are a true expression of the relative merits of the various makes or models under consideration, although this assumption may be quite an error. Still, if any substantial proportion of all potential buyers *are* greatly affected by the trade-in allowance and do *not* pay sufficient attention to the qualities of the competing products in reference to the *net amount* which will have to be paid, a relatively high quoted price, high dealer margins, and long trade-in allowances may be wise.

Considerations of Public Policy

Particularly when a concern is large and its price decisions are of such common interest as to be widely publicized, the effect of such decisions on public attitude must be taken into consideration. In inflationary situations which accompany mobilization, or follow the relinquishment of price controls, government agencies strive to control inflation, and business concerns which do not help to "hold the line" may find themselves in public disfavor. In view of this contingency, even though costs have increased and price increases are thus in order, price increases may be withheld because of the unfavorable repercussions which are likely to appear. Many of our larger concerns, particularly the automobile companies, did not increase their prices after World War II as much as the market would stand. As a result, by one method or another, automobile dealers and speculators charged retail prices much higher than those announced by the manufacturers. A genuinely unhealthy retail price situation prevailed. Nevertheless, manufacturers apparently thought that their future relations both with consumers and with government agencies would be improved if they established prices which were considerably lower than the market alone would dictate. In view of the fact that a good case can be made against this policy, the significance attached to a healthy public attitude toward a company and its policies is apparent.

In recent years, price increases have often followed wage negotiations through which hourly rates were advanced. When wage rates were tied to cost of living indices, automatic wage adjustments have often been followed by price changes. Furthermore, some managements apparently have been reluctant to advance prices unless there was strong evidence that it was necessary to cover increased costs. It has not been a question whether the strength of demand justified

price increases but whether they could be justified on other grounds. In view of this attitude, management has felt that it must take the opportunity afforded by increased cost to increase prices. Probably there was also the thought in mind that the relationship between costs and prices should constantly be stressed or, conversely, that the assertions of the labor unions that increased costs could be "absorbed" should always be denied. The unions implied, of course, that profits were much too high and that the most acceptable way to reduce them was through wage increases unaccompanied by price increases, which would increase the real wages of industrial workers. Nor have the unions been alone in their attack on profit levels. Rather it has been a political movement—one which has gained considerable strength in the past two decades. Thus decisions on prices must also take into consideration the public reaction toward profits. Policy toward the public and its attitudes undoubtedly is playing an increasing role in price determination. No longer may management act in a manner which is considered arbitrary and not in the public interest through any policies, including pricing, if the best results over the long run are to be attained.

THE NATURE OF THE PRICING PROCESS

Some of the factors which influence price have now been discussed. Furthermore, some indication has been given of their interrelationships, of their relative importance, and of the price policies which emanate from them. It is a safe generalization that each of these factors in some measure affects all pricing decisions, that ideas of executives about them and quantitative information on some of them enter into all pricing discussions. Ideas and data on these factors are the "raw material" from which prices are made. The soundness of pricing decisions depends very largely upon whether sufficient research work has been done in reference to the market, whether cost data is sufficiently detailed and accurate, and whether competition has been appraised accurately. In other words, the "raw material" for pricing must be ample, as objective as possible, and of good quality, if sound prices are to be established.

Methods of Approach

The factors which affect price vary in importance in different industries and even in different concerns in the same industry. Their relative importance is a function of the size of a concern, its position in the industry of which it is a part, its market coverage, its costs relative to those of its competitors, and many other factors. Because of this variance, the methods of approach are likely to differ markedly. Also,

the approach may vary depending upon whether the product is one firmly established in the market or a new product. The approach may be a narrow one—for instance, "following the leader" or simply meeting competition. It may be a very broad one, such as that of attempting to tie price changes to estimated changes in the national income. But whether the approach is from the market as such, from the side of competition, or from cost, other factors will ultimately enter in as price determinants. It is simply a question of selecting one factor as a point of departure. Moreover, it might be argued that this decision is not a particularly important one if other factors are not, as a consequence, neglected. The factors of cost and competitors' prices are often selected because of their tangibility. For this same reason, perhaps, they are often given too much weight in the decisional process and thus their selection has been criticized. There is no logical reason, however, why these points of departure cannot be used effectively; in fact, one or the other is used by most concerns.

An Approach from Competitors' Prices. Let us suppose that the question of prices on new models has arisen for a small or medium-sized manufacturer of household durables, such as stoves, refrigerators, radios, or vacuum cleaners; also that, while each manufacturer's product has some special features, there are many highly similar ones on all products of a type, regardless of origin. Each manufacturer at least wants to hold his position in the market. This means that he wants to continue to secure that share of the market which he has enjoyed in the past and, if possible—by product innovation and more effective selling methods—to increase his sales relative to those of competitors.

Most manufacturers are realistic and they respect competitors' strength. Therefore, as a start in pricing, they may secure information on the specifications of competing products, on the announced prices for them, on dealers' margins, on discounts, and on all other pertinent factors affecting the actual price which consumers will pay. If necessary, competitors' products can be secured and disassembled for complete testing of materials used, assembly parts and how they function, and performance of the complete unit. With this information at hand, an array can be made of the prices of directly competing models on some classification of size, capacity, or number and importance of special features offered, some of which, although not identical, may be common to all competing models.

The information on prices may be for old models or new ones, depending upon whether the prices of competitors' new models have been announced. Even though prices of competitors' new models are not available, a shrewd guess as to what their prices are likely to be can be made by a manufacturer from a knowledge of his own cost trends. In addition, there may be some information on whether his own prices or those of individual competitors were slightly too high

or too low in the past year to secure the usual proportion of the market for each; likewise, whether there were inroads into competitive position, where and for what reasons, including price. It is a question of being aware of what happened competitively in preceding model years, particularly in the one just past, for guidance in pricing.

The next step is to evaluate pricewise the product innovations or improvements which are to appear in the new model. If one manufacturer is following another in certain improvements, a shrewd guess can probably be made as to their significance to consumers and the additional amount they were willing to pay in order to secure them. If an innovation is made, its effect on the consumer—that is, how he will evaluate it—is more difficult to predict; but a judgment on it must be made. Such an innovation may be brought to the attention of a group of consumers to secure an expression of attitude, perhaps in value terms, from them. Other manufacturers will be in the same position, and what one does by way of innovations or improvements will influence the pricing problems of all others. However, they do not proceed entirely without information on the changes which are likely to be made. Through friendly exchange of information, information from suppliers, and gossip in the industry, each manufacturer is likely to know what product changes other manufacturers are making and will then attempt to arrive at some judgment on their price significance to consumers. The difficulty of so doing should not be minimized, yet the necessity for reasonably accurate comparative pricing is apparent. The problem for the manufacturer is to balance his own product innovations and improvements against those of his competitors and attempt to modify price accordingly. Through this process, a tentative price is set on each model—one which the price analysts feel will be competitive and will thus maintain the company's position in the market.

After tentative prices have been set, the next step is to secure information on costs, model by model, and then to determine the profit margins on each. These margins may vary substantially. If in the judgment of the analysts the margin is too low, both costs and prices are re-examined. Perhaps a slightly higher price can be charged or costs reduced. The decision may be made to alter the model by eliminating some gadget or changing specifications which will so reduce cost that a more reasonable profit margin appears. Nevertheless, the question of what difference any such action will have on the ability of the model to compete at the price selected must be considered. The conclusion may be reached that costs cannot be reduced nor price increased and still have a model competitive in the market. In that event, if the company wishes that model on the market, perhaps to offer a complete line, a low profit margin must be accepted. The company may, nevertheless, if its various models are substitutional, stress the higher profit

models in promotional work, thereby increasing its average profit per unit sold.

The process, both initially and later, is one of constant adaptation to competitive conditions in the market. Data on industry sales based on trading areas is available for a number of products in the household appliance field through trade associations. Therefore, it is possible for a company to determine its relative position periodically and to some extent by models. It can be determined whether sales, either under or over expectations, are or are not the result of a loss of competitive position. If industry sales are less than expected, prices may be re-examined in order to determine, in so far as possible, whether a reduction would stimulate sales. A loss in relative position will probably be considered even more serious and may result in price readjustment downward, perhaps only on certain models. Or, if the manufacturer does not wish to make price changes during a model year, the better strategy may be to increase promotional expenditures. The action taken will depend upon a determination of just why competitive position is being lost. It may be that promotion has been ineffective, that distributors' margins are unattractive, that the product is not technically sound, that prices are not truly competitive, or any one of many other reasons. While the various remedial actions which may be taken are possible alternatives, in general, it would probably be argued that the action taken should be directly related to the cause of the loss in competitive position.

The question arises whether all concerns in an industry could follow this approach to pricing. Obviously, some particular concern must announce its new model features and its prices first and others must follow. Yet all competing concerns may have been working on the pricing problem in much the same manner over many months. Initial action is likely by those companies which enjoy the strongest positions in the market. Thus, there is something of the "follow the leader" policy here present. Yet any manufacturer may make independent moves in pricing, perhaps only on particular models, and then watch results carefully. Every price move affects competitors to some extent and, if significant, may call for retaliatory action. Management recognizes that judgments on initial prices are fallible and, therefore, that prices in a competitive situation are always experimental. Adjustments may not be made in announced prices during a model year, but in some manner, perhaps through trade-in values, special discounts, higher distributor margins, stronger promotion, or changes in the product itself, adjustments are made and the competitive situation is altered thereby. Through the interplay of competitive forces and an awareness of them, prices are established which, at least roughly, reflect the position of each manufacturer's products in the market.

An Approach from Cost Data. As an approach to pricing from

cost data, the pricing policy and procedures of General Motors Corporation are both interesting and informative. They have been authoritatively described and evaluated both by executives of the corporation and by students of pricing.[8] Although the policy was first enunciated in the early twenties, it is still being followed in its essential outlines and has been staunchly defended by the corporation's executives. Essentially, the policy is based upon two concepts: (1) that prices should reflect the investment of capital necessary to get the motor vehicles or other products on the market, and (2) that prices should be based upon standard volume—that is, normal average rate of plant operation. By way of procedure, the corporation established a desired or "normal" rate of return upon capital employed. Just how this rate was determined is not stated, but it must have been a reflection of the corporation's position in the industry, its feeling of assurance that product innovations would be forthcoming, and that possibilities of expansion in the industry were great. As the rate was set at a generous level, it was also a reflection of confidence in the corporation's personnel and policies.

In each operating unit of General Motors, costs based on standard volume are computed and the amount necessary to cover total investment at the standard rate is added to secure a preliminary price figure. Costs of labor, raw materials, and selling costs, including distributors' margins, are all included because the price being determined is the announced retail price. The costs used are actually anticipated costs, for consideration is given to the probable trend of raw material and labor costs and other possible cost changes over the interval during which the price determined will hold. Much can be said for anticipated cost based upon standard volume as an approach to pricing, particularly for consumers' high-value durables, such as automobiles. As prices are being set to prevail for some time in the future (perhaps a year), cost estimates may more nearly represent actual realized costs than those which prevail when pricing is done. Costs based upon standard volume, rather than on current or estimated volume, have considerable merit, as indicated previously. Still, prices computed through this procedure are preliminary judgments suggested by long-run considerations. Donaldson Brown called them "the co-ordinating link between policy and administrative procedure." These prices are modified by shorter-run considerations, principally by the necessity

[8] See Donaldson Brown, vice-president, General Motors Corporation, "Pricing Policy in Relation to Financial Control," *Management and Administration*, Vol. VII, No. 2, pp. 195–98; No. 3, pp. 283–86; No. 4, pp. 417–22. Or Homer B. Vanderblue, "Pricing Policies in the Automobile Industry," *Harvard Business Review*, Vol. XVII, No. 4 (Summer, 1939), pp. 385–401, and "Pricing Policies in the Automobile Industry: "Incidence of Demand," Vol. XVIII, No. 1 (Autumn, 1939), pp. 64–81; also General Motors Corporation, *The Dynamics of Automobile Demand* (New York, 1939).

of meeting competitive prices, at least within a certain range, and the level and trend of national income.

It is fully recognized by General Motors that the demand for automobiles is largely a function of changes in the level and trend of national income—perhaps, more accurately stated, of consumers' disposable income after day-by-day necessities have been provided for. Therefore, their analysts must attempt to predict the direction and rate of change in national income and its effect on demand. As the purchase of automobiles can be deferred, demand in the past has dropped more than proportionately with decreases in the level of income. For instance, between 1937 and 1938, national income dropped slightly less than 10 per cent while the amount spent for automobiles dropped nearly 40 per cent. Thus the level of national income largely determines the level of demand, the level of demand determines the volume of automobiles which should be manufactured, and this volume will be largely determinative of the level of costs, prices, and profits.

Yet price itself, as well as the level of national income, affects the number of cars sold. Basing unit cost on standard volume keeps the price down because it does not include unabsorbed burden. But, in view of some degree of elasticity perhaps, the prices suggested by the General Motors basic formula may be decreased even further if those responsible for price determination think that a price reduction will affect demand favorably; that is, that there will be a net gain thereby. Also, since competitors may believe that there is a greater measure of elasticity of demand than actually exists, or that, through price reduction, they can secure a larger share of the market than previously, the price level for automobiles may go substantially below the price suggested by the cost plus normal return on investment approach. In other words, price competition in times of depression may be sufficiently strenuous to force an unreasonable price level on the industry as a whole.

Operating units of General Motors go through this general pricing procedure and then submit tentative prices to the appropriate group in the corporation proper. There these prices are again subjected to painstaking analysis with the particular objective in mind of securing a reasonable measure of coherence in the whole General Motors pricing structure. Obviously, through comparisons of suggested prices, model by model, for the various operating divisions, prices which appear to be out of line can be spotted and further investigation made as to the reasons therefor. Perhaps, because of certain conclusions reached, for instance, on the trend of national income in the months ahead, the whole level of the prices suggested by the operating units may be increased or decreased, but the action is more likely to be a

"lining-up" process. However, it should be recognized that policies of various types which directly affect the operating units can be put into effect through prices if the executives of the corporation so desire.

The approach to pricing just discussed, succinctly stated as cost, including a desired or normal rate of return on investment, based on standard volume, modified by shorter-run considerations, particularly by the level of national income and competition has been summarized as follows:

> Setting prices is not a matter of cost accounting alone. Cost accounts are useful tools; but they are at best only tools. Whoever seeks to know the truth about the price policy of General Motors must start out with a clear realization that there are many items of cost that General Motors cannot control, and that it cannot control demand. It cannot regiment customers or require them to buy cars at any given time, or at given prices. It must meet competitors squarely. At the same time, the corporation must recognize, when it comes to appraising the market, that the level and trend of national income are among the most important determinants of the total value of automobiles which can be sold in a particular model year, or in a particular month. The public reaction to general business prospects thus determines whether, at a given time, demand is to contract or to expand, to abate or to intensify.
>
> Moreover, a price policy cannot be entirely determined by the level of demand. . . . In setting prices in a particular year, General Motors has therefore turned to a policy which has been formulated in the long-run interests of its workers and its stockholders, as the management has been able to appraise these interests. In poor years, this policy results in prices held at levels set by long-term considerations, even though such prices can contribute little, if anything, to profits in such years. In good years, there has been no attempt to charge, even temporarily, all that the traffic would bear. Instead, weight has again been given, not to the opportunities of the moment, but to long-term factors which affect the demand for labor, the provision of plant and equipment, and the requirement that profits be earned for the stockholders over a period of years.[9]

An Approach from Basic Market Factors. When a company contemplates the pricing of an entirely new product, the approach is likely to be through direct market investigation, rather than from competition or cost. It is a question of the significance which potential consumers will place upon the new product in view of the utility which it offers. There may or may not be other products which give somewhat the same utility. If there are substitutes in use, the prices charged for them will give some clue as to what price the market will bear, but variations in the type and amount of utility offered will have to be taken into consideration. If the product has no substitutes, only

[9] Homer B. Vanderblue, "Pricing Policies in the Automobile Industry: Incidence of Demand," *loc. cit.*, pp. 80–81.

direct contact with potential buyers or experimental pricing will furnish an indication of what consumers will be willing to pay. The subject of pricing for new products will now be discussed. The nature of market investigation for new products will then be considered in more detail.

PRICING OF NEW PRODUCTS

Nature of the Initial Pricing Problem

The problems involved in establishing prices for new products are not inherently different from those encountered in pricing new models or changing prices on older products. The same factors influence pricing decisions, but their relative importance differs. Direct competition has a lesser role to play and basic market factors a more significant role. Thus, the initial approach to pricing is likely to be through an investigation of the market. When a product is new, the possibility of accurate market measurement and of demand prediction for the product is less than for old products. Furthermore, there is greater breadth of pricing discretion if a product is new, different, and without direct competition. This increases the difficulties involved in reaching sound pricing decisions.

The nature of the pricing problem depends very largely upon the degree of "newness" present in a product. A changed model is to some extent new, but it would not be considered a new product. A new cold cereal of the flaked or puffed variety may be different in form from others; but its uses are known and limited in number, it probably will be fitted into a line of such products, and the limits on price because of some likeness and ready substitution are probably narrow. In contrast, a really new product, such as Fiberglas or television, may offer considerable discretion in pricing: first, because (as in Fiberglas) there may be many possible uses of widely varying economic significance; second, because patent or copyright protection may delay the emergence of direct competition; third, because the utility offered may be entirely new and of varying interest level to different groups of people. Under these circumstances the range in the initial prices which have some feasibility may be exceedingly wide. For some uses, a product may command a very high price; for other uses, a much lower price. Fiberglas, for instance, has been used as the hairline on surveying instruments and as insulation in motors and buildings. Obviously, the product price which would be paid for each use would vary greatly. A decision must be made on what sectors of the market to tap, initially, and this is largely a pricing decision. The manufacturer with a new product must also anticipate change in the product itself and in his position relative to the market. Probable changes will condition both initial and later pricing decisions.

Uncertainty of Competitive Position

In the great majority of instances, the advantage given by the development of a new product is short-lived. Competitive inroads into a manufacturer's position of independence in pricing is not only likely but rapid. It may be through like products, if patents have proved relatively ineffective, or through substitutes which, through improvements, have become more acceptable to the market. Manufacturers often say that they hope to "get a jump" on their competitors through the introduction of a new specialty item, but that their "running start" is not likely to be over a few months at best. If competitive entry is relatively easy, as it is likely to be in the food and drug industries, only a few months may elapse before all major producers have some version of the new product on the market. A recent example is furnished by the many brands of antihistamine preparations for the treatment of colds. Minute Maid frozen orange juice started as a protected specialty item but it now has many competitors. In some instances, basic patents can be obtained which hold, or the difficulties of manufacture and the size of the necessary capital commitment may withhold the emergence of competition. Would-be competitors are also influenced by the pricing decisions of the innovator. Under some circumstances, he can make competitive entry into the market either attractive or unattractive.

From the technical angle, a new product manufacturer's position is likely to deteriorate relative to others, or, at best, to remain constant. It is not likely to improve, or even to remain constant, if nothing further is done in product development. Rather, in our competitive economy it is a matter of running constantly in order to remain in the same position. If one manufacturer has a product in which unusual profit possibilities are present, this serves as an open invitation to would-be competitors. However, if it is a situation in which there are still many possibilities of product improvement, and the innovator can stay ahead of his competitors in this area, his relative position may not deteriorate for some time. Nevertheless, over the long run, the initial advantage given by a new product will disappear. The product will become a well-known, widely used item if it furnishes an important utility. There will be many producers of it, competition will be strong and active, and profit margins will be low. The market will become saturated or at least not subject to marked expansion as in previous years.

Another factor which influences potential competitors is the rate at which the market accepts the new product. If there has been a recognized need for a product which will provide a certain utility and an effective product appears, acceptance of the product may be rapid. Again, the antihistamine remedy for colds is a case in point. The I.E.S.

lamp, mentioned in reference to product development, furnishes another good illustration. In contrast, if a recognition of need must be created through promotion, or if, for some reason, there is aversion to the product or its use which must be overcome through education, market acceptance may be slow. There may be ready acceptance by a limited sector of the market, but slow acceptance by the mass market. Acceptance is also, in part, a matter of price. It can be withheld if encouraged by pricing decisions. But, whatever the reason for acceptance, its extent will influence potential competition, either favorably or otherwise.

Steps in Initial Pricing of New Products

Market Investigation. The approach to the pricing problem for new products must be through the market. In fact, some market investigation usually precedes other than initial development of the product and guides further developmental steps. Product and market testing may follow. A manufacturer who has taken these steps has some knowledge of the potential market before the need for pricing arises. At times, however, the order is reversed. Through market investigation, the needs of potential buyers are determined, the characteristics of a product which would meet their needs are decided upon, and the amount they will pay for such a product is estimated. Then an attempt is made to design a product with these characteristics and still one which can be produced and sold at the estimated price. Market investigation has preceded, rather than followed, product development.

The type of investigation needed in reference to new products, beyond that done through product and market testing, is likely to be of the individual unit forecast or direct evaluation type.[10] From this type of investigation, information is secured on the significance of the new product to different types of potential buyers and on the potential demand from various sectors of the market. Estimates of potential sales at different price levels can also be made from these data. While great accuracy cannot be expected in such estimates, still a conclusion that, at a certain price level, particular product uses or users will be included or excluded from the market can often be made with some assurance. From this initial market investigation, decisions must be reached on the most acceptable order of market development, perhaps by both types and sizes of potential buyers and by geographical area. Preliminary market targets can then be set up which can be related to production and distribution costs in an effort to find a tenable position for operations.

Appraisal of the Competitive Situation. Attention to the prices of

[10] See Chapter VIII, pp. 202–8.

substitutes in reference to the utilities which they furnish may give some indication of the price level which should be established for the new product. Few products are so unique that they have no substitutes on the market which at least partially meet consumers' needs. Air travel is a new service for most people. Still, the prices of railway accommodations are of importance in determining air travel rates. Fiberglas insulation was a new product, but the prices of other insulation products were limiting factors on the price which could be charged for it.

In the industrial field, the value given by competing products can often be determined with considerable accuracy. When a new product comes along which can be substituted for another with some advantage, the significance of the advantage can be translated into value terms. For instance, a new type of machine tool, or one with new attachments, might enable the operator to turn out an additional number of pieces, and the saving achieved thereby could be determined. Then calculations could be made as to how much the company could afford to pay for the new machine. In the case of a new product, such as a packaging material, the problem would be somewhat more difficult. Tangible savings might result, but advantage might also accrue from greater acceptability of the package to the consumer. At times, quality differences, especially in consumers' goods, are very difficult to translate into price differentials. Nevertheless, a knowledge of the prices of substitutes furnishes a general idea of the range of prices which are feasible for a new product.

Distributors' Attitudes toward Price Levels. Something can often be learned from distributors who handle like products or substitutes. They have a "feel" of the market which the manufacturer, particularly a new concern, may not have. The question "Will this new product sell at a certain price?" stated, perhaps, in terms of a price differential over less effective substitutes, may elicit some informative comments, not only on prices, but also on the comparative merits of the products themselves. If the new product is to be sold through distributors, this step in pricing has particular merit, for the attitude of distributors, whether or not they think that the price charged is reasonable in relation to those of substitutes, will have much to do with their later efforts to sell the product.

Experimental Pricing. While all pricing of new products is essentially experimental in character, pricing experiments can be made before the product is placed on the market. This is pre-testing of various price levels, primarily on consumers' goods, to determine their effects on sales. "One appliance manufacturer tried out new products on a sample of employees by selling to them at deep discounts, with the stipulation that they could, if they wished, return the products at the end of the experiment period and get a refund of their low pur-

chase price. Demand for frozen orange juice was tested by placing it in several markets at three different prices, ranging around the price of fresh fruit; the result showed rather low price elasticity."[11] While pricing experiments of this type are useful because they give a rough indication of price elasticity, there are pitfalls for the unwary as indicated in the chapter on product and market testing (Chapter III). The central problem is to so arrange the experiment that the difference in results can reasonably be attributed to a single variable—in this instance, a difference in price.

Relating Tentative Prices to Costs. Just as for older products, any tentative prices determined largely from the market side must be related to other factors, particularly to manufacturing costs at different levels of output and to other marketing policies and procedures. The channels of distribution selected and the nature and extent of the promotional effort will have their effects on price.[12] Price itself is a promotional weapon, one which can be substituted for other promotional means if management thinks that it will have greater effectiveness. Promotional costs can only be justified if they are more effective than an equivalent price reduction. Other selling costs are in much the same position; likewise the costs of product features which are not essential to the basic unit. Again, as for older products, it is a question of relating the variables of cost, volume, and price in such a way as to provide the most desirable level of operations.

Pricing Policies for New Products

Position of the Manufacturer. Before considering price policies as such, the position of the manufacturer in reference to his new product should be reviewed. First, considerable product development expenses have probably been incurred, perhaps over many years, which must be recovered if the project is to be successful. Second, there is much uncertainty involved regarding both acceptance of the new product by the market and the competitive situation. Not only is the present competitive situation of significance, but also there is need for forecasting what it is likely to be in the future under various assumed circumstances. Third, placing the new product on the market will necessitate a large capital commitment, particularly if it is placed over the entire national market. Both promotional and physical distribution costs will be incurred in substantial amounts as a condition of new product introduction. If the product is not sound, if it does not secure the expected market acceptance, the losses may also be in substantial amount. Placing a new product on the market is essentially a risky

[11] Joel Dean, "Pricing Policies for New Products," *Harvard Business Review*, Vol. XXVIII, No. 6 (November, 1950), pp. 47–48.

[12] See Chapter XIV, pp. 451–54, on sales program planning for new products.

undertaking. Since prices presumably must reflect both costs and risks, these must surely be taken into consideration in pricing new products.

Companies in control of new products will vary greatly in their ability to commit funds and to take risks. Variation in position will range from the impecunious inventor to the large corporation with sufficient financial resources to make any commitment or take any risk which its executives think desirable. These large corporations will also have able and experienced management and developed contacts with distributors and other potential buyers. The essential point for pricing is that the policy followed must reflect these differences in the position of the party in control of the new product. Objective analysis may suggest a certain policy which the party in control has neither the ability nor the funds to put into effect. Nevertheless, such an analysis should be made and the most acceptable policy determined. It can then be modified to make it more realistic in view of all the circumstances which prevail.

Alternatives in Pricing Policy. For a new product, the manufacturer has a greater range of prices from which he may select than for older products which have been on the market for some time; that is, his range of discretion in pricing is greater. His problem is to select a price level within this range. He can select any level, but a distinction is usually made for distinguishing policies between selection at relatively high and relatively low levels. Thus the policies followed may be termed (1) "high-price, limited-market objectives" and (2) low-price, mass-market objectives." The first policy has been termed "skimming the market"; the latter, a policy of "penetration pricing."[13]

High-Price, Limited-Market Objectives. If the manufacturer follows this policy, he is making his product available only to those potential buyers who attach great significance to it and who can afford to pay a high price. Much can be said for this policy if the manufacturer's new product is highly distinctive; if it is one the ownership of which will give the intangible value of prestige. Unless the initial price is too restrictive of volume, it will result in high profits which will permit the prompt recovery of developmental expenditures and provide the necessary funds for extensive promotion, expansion of production facilities, and physical distribution of the product. Even though competition is likely to appear before long, the manufacturer may feel that it is wise to get an extra profit margin through a high price *while he can*, to feature product improvement and to compete pricewise only when it is forced upon him. If competitive entry is difficult and there are still many opportunities to improve the product, this policy may make good sense.

The situation may be such that only a limited quantity of products can be made available initially and expansion imposes unusual diffi-

[13] Dean, *op. cit.*, p. 49.

culties. In one particular instance of a complex equipment item, no method had been discovered to "mass produce" the item. Orders piled up but could not be accepted because hand methods of production greatly limited output. In an instance such as this, or whenever it is likely that demand will be much greater than supply, a high price policy has more justification.

This policy of a high initial price is a conservative one and therefore one which has considerable appeal to those concerns which are not in a position to take considerable risk. There are many unknowns in the situation. Certain estimates are questionable at best. This applies to demand elasticity, production costs at various levels of output, and the rate of acceptance of the new product. Initially, the demand is not likely to be highly elastic, for people who are interested in the new product and have the necessary funds will purchase it without much thought of price. Substitutes or like products which affect the elasticity of demand for the innovator may not as yet have appeared. Sectors of the market which might be interested in the new product at a lower price may not even know of the product until considerable promotional work has been done. In view of these considerations, the manufacturer may consider it the path of wisdom to go slowly, learn as he goes, and adapt himself to changes as they appear.

Low-Price, Mass-Market Objectives. A low-price policy appears to be more in conformance with what has previously been said about the uncertainty of the competitive situation and the possibilities of deterring the emergence of competition through pricing. It is argued that a low price will aid in securing early acceptance of the product by the mass market, that the manufacturer's brand name will become known and the quality of his product recognized by the great mass of potential purchasers, and that the difficulties of would-be competitors are thereby enhanced. As indicated previously, this means further substantial capital commitments for the new product manufacturer not financed through profits as he goes along. On the other hand, this policy largely denies a gradual approach to competitors and, because expansion cannot be financed out of profits, may deny them entry into the market altogether. If the profit prospects are good over the long run, however, large competitors will eventually come in anyway, but not under such favorable conditions. If the new product is a more acceptable substitute for the products of a number of manufacturers already competing in the market, among them the new product manufacturer, he may use the new product to secure a redivision of total demand in his favor. This advantage, he might feel, is of greater importance than an increase in profit margin. "When a leading soap manufacturer developed an additive that whitened clothes and enhanced the brilliance of colors, the company chose to take its gains in a larger share of the market rather than in a temporary price premium.

Such a decision was sound, since the company's competitors could be expected to match or better the product improvement fairly soon. Under these circumstances, the price premium would have been short-lived, whereas the gains in market share were more likely to be retained."[14]

The conditions which favor each of the two alternatives discussed can now be summarized. A high initial price with limited market objectives has greater merit under the following conditions: (1) the new product is unique—perhaps almost revolutionary—in character and well protected legally, thus no direct competition is expected; (2) market acceptance of the new product will require considerable educational effort and at best will be slow; (3) the ultimate size of the market is expected to be small and of insufficient size to attract competition; (4) there is evidence of inelasticity of demand, except at a substantial reduction below the price which can initially be charged, resulting from a wide range in the economic significance of various possible uses; (5) the manufacturer has limited financial resources and is not in position to expand rapidly; and (6) output cannot be expanded rapidly because of technical difficulties.

While the conditions just enumerated often prevail, they are relatively less prevalent than those which counsel a low price with mass market objectives, especially when the "new" product is, in fact, only an "improved" one. The conditions under which this pricing policy is most feasible are the converse of those which favor a high price. While too much weight should not be given to the argument that competition can be discouraged by a low price, there is some validity to the argument in reference to relatively weak, would-be competitors. Strong potential competitors are not so easily discouraged. The possibilities of greatly reduced production cost with large volume, a greater share of the market eventually, as well as presently, and widespread brand acceptance are stronger arguments for a low initial price. Added to these are the uncertainty of competitive position in a free enterprise economy. An initial high price, in many instances, is, in a sense, a delaying tactic in reference to the mass market. While it may be wise under the conditions enumerated, uncertainty of competitive position usually counsels against it. It is essentially a question of timing the downward movement of price wisely from that which attains only limited market objectives to that which attains mass market objectives.

PRODUCT-LINE PRICING

Analysis of the Problem

It is a basic economic concept that all prices are interrelated: on the demand side, through the possibilities of substitution and compe-

[14] *Ibid.*, p. 51.

tition for the consumers' purchasing power; on the supply side, through competition for the factors of production. This concept appears particularly applicable to prices of the various products of a single manufacturer. They may all have come from much the same batch of productive factors. At least, to some extent, all products of a manufacturer are in the nature of joint cost products. Furthermore, when they are related on the distribution side, they are often substitutable one for the other. For example, a line of dining room chairs may differ in size, quality, basic design, and material used, but they all serve the same purpose. Food products are all essentially substitutable —particularly so, if they are of one type, such as meats or breakfast cereals. The same items in different package sizes are obviously substitutable.

The complete-line concept suggests the need of product variation in sufficient degree to meet the desires of both distributors and ultimate consumers.[15] On the other hand, too great variation by product type in the line of a particular manufacturer is considered unwise because of a lack of alignment on the production side, on the distribution side, or on both. This suggests that the problem of product-line pricing arises to the extent that the manufacturer has a defensible line structure. Under such a circumstance, there are jointly usable production facilities and distribution facilities.

It might be argued that product-line pricing is not a problem of price determination as such, but rather a problem of price administration; that price determination deals with the level of prices; and that, by some simple method of adjustment, price variations from a price level base can be established. For instance, the prices of different sizes of garments, such as for men's and boy's underwear, may be varied from a base figure entirely on the basis of the relative amount of cloth used in manufacture. Or full cost may be computed for each specific size and price varied on that particular base only. But the problem is not so simple as these illustrations would indicate. Numerous factors should be taken into consideration here as in all pricing problems. The problem of product-price lining is more than a problem of price administration as will shortly become evident.

Approaches to the Problem

From the Side of Cost. An attempt may be made to determine the actual cost of each item in a line, considering size, quality, design, etc. variations as items; and to vary the price from that determined for a standard unit on the basis of variance in cost. For instance, if the price determined for a standard four-door sedan was X and this was 20 per

[15] For a discussion of the constitution of a line of products, see D. M. Phelps, *Planning the Product* (Chicago: Richard D. Irwin, Inc., 1947), chap. iii.

cent above cost, this percentage could be applied to the cost of all other models to secure their prices. In that event, all models would be equally profitable on a percentage basis, but quite different in total dollars of profit. In contrast, a flat dollar mark-up might be used—for instance, the dollar increase above cost, whatever it happened to be on the standard unit. In that event, if the cost of an item were above that for the standard unit, the additional cost would be recovered, but there would be no profit based upon it. If it were lower than for the standard unit, the flat dollar markup would result in a more than proportionate increase in price.

If the question is one of adding or withdrawing an item from a line, the full estimated cost in relation to previous selling price is significant. With demand above capacity production, those items with the lowest profit margins should be deleted unless they are necessary for a complete line. In times of depression, when capacity is incompletely used, out-of-pocket cost may be a significant figure, for items may then be included in the line at prices which at least meet these costs and contribute something to overhead costs. Obviously, such business should not be accepted if it is substituted for volume which bears its full share of overhead.

The cost problem is particularly complex when certain costs are truly joint in character; that is, when different items inevitably result from the same operations and it is impossible substantially to change the ratio in which the items are produced. This is a common situation where a group of products come from one supply base, as happens in the packing industry. Under such circumstances, there is no way to allocate costs to the several products which is not arbitrary. It is not uncommon to allocate joint costs to each product in the proportion which it contributes to the sales revenue. In other words, the joint cost elements are determined by prices of the products, which, in turn, depend upon demand and supply factors in the market. Perhaps it should be done in this way; but, obviously, under such circumstances, cost is not determining price; rather price is determining cost. At times cost is allocated on the basis of the amount of the joint raw material used for each product, but this method is of doubtful validity when one product, usually the principal one, determines the quality of the raw material purchased. At times, a situation exists in which some of the joint products are produced by other concerns as single products. If those concerns' costs for raw material can be ascertained, a reasonable basis of cost allocation can be determined for the joint-cost products.

From the Side of the Market, Including Competition. Products in a manufacturer's line may be interrelated in the market in a number of ways, all of which affect prices. The principal one, substitutability, has been mentioned previously. They may be used together as equip-

ment and supplies. It may then be desirable strategy to take the major share of the profit on the supplies rather than on the equipment item. A case in point is razors and razor blades. The price on one product in a line may affect the sales of another, either presently or at a later date. The significance of a complete line has also been discussed. A line may be stronger than any one of its members; therefore, it is important that the various items in it be so priced that the line will be kept strong, even though prices on some of the items result in little, if any, profit. In a very real sense, the company is selling the complete line, not its various member items.

The prices on members of a product line must also be adjusted to various market segments based upon purchasing power and interest in new or unusual designs or product features. Such action is part of a general strategy of appealing to different sectors of the market; among them that sector which, because of higher purchasing power, can afford to buy the best and most distinctive items of a general class. Subjective value is increased simply because fewer people possess them. Also, if such products are known to cost more and if they are produced by a company which stresses high quality merchandise which habitually commands a premium price, their value to certain groups of people is enhanced.

A manufacturer, let us say of household equipment, may start from the basic product features which are incorporated into all models and progressively add additional features or "gadgets" to create other models until a "super-deluxe" model is offered as the "last word" in product design. The statement will probably be made that there is nothing better manufactured and available to the consumer than this particular model. The additions to the basic model may not be very costly, and costs may be recovered, perhaps, many times, through upward price differentials as the models become more distinctive, even allowing for an increase in selling costs. Sales people are then instructed to try to lead buyers up the quality and price scale when they are in the process of purchasing. Those consumers who want the best products and can afford them are likely to follow. These people comprise a limited sector of the market, but one worth cultivating because the manufacturer's margin over costs is increased thereby.

A variation of the procedure just discussed is to make available "extras" for purchase at the buyer's option. They may be incorporated into the product—as are the automatic shifts on cars; or they may be added to the product—for instance, a car radio or spotlight. When a product feature is new, relatively unknown, and without wide consumer acceptance, purchase is often made optional. Then, if it is successful and acceptance seems assured, it is often placed on the more expensive models and later, perhaps, on all models. If the extra is costly in absolute terms even though it constitutes only a small part

of the total cost of the unit, and if acceptance although widespread is not unanimous, it may be wise to continue the optional purchase feature. One reason is that there may be acceptance in the sense of desire for the extra but not effective demand because of the additional cost. Then, also, the quoted price must be higher if the extra is included; and if a similar item is not offered by other manufacturers, their quoted prices may appear lower. Sales may thus be influenced unfavorably. There is also virtue in permitting people to buy only what they actually want. If they do not wish to buy a radio in a car, they should not be forced to do so. Nor is forcing purchase in the manufacturer's interest. Therefore, waiting until there is close to unanimity on an extra before removing the optional purchase privilege, particularly if the extra adds substantially to price, is sound pricing policy.

In order to implement the pricing strategy just discussed, shrewd guesses must be made of what people will pay for additional features in a product. It is basically a question of the elasticity of demand present for different product variations. While this question of price differentials is a difficult one to handle, some useful information can often be secured through interviews with users, potential buyers, and distributors, and from experimentation in pricing. Every effort should be made to establish sound price differentials because profits can be substantially affected thereby. One reason is that potential buyers are often very astute on comparative values. For instance, it has been found in the automobile industry that a difference of as little as $25 in basic value between models *of the same producer* may shift an appreciable volume of demand from one model to another. They rightly assume that "hidden values" are constant. Then, if they sense that one model is a "better buy" than another and are not strongly motivated by other factors, they will purchase the one which seems to offer the best value. Now, if this model which is favored through a price differential is one which the manufacturer wishes to push for other reasons, the shift in demand may be desirable. On the other hand, it may be disadvantageous under certain cost relationships, in that it results in reduced profits.

Pricing Based upon Variations in a Single Product

Nature of the Problem. The problem faced by a manufacturer of dining room chairs is illustrative. If he attempts to produce a reasonably complete line, he will manufacture different sizes, qualities, designs; he will use different woods—maple, mahogany, oak, etc. If these variables are combined in all possible ways, the number of units which are different in some respect will be manifold—perhaps several hundred. Take another illustration, that of an underwear manufac-

turer, and note the variables which might be present in that case—for instance fabric, size, finish, length of leg and sleeve, basic design, and other variations, depending upon whether the garments are designed for men, women, misses, boys, or small children. Again, the number of units different in some manner would be manifold. The likelihood is that there would be substantial cost differences likewise, but whether it would be advisable to have these cost differences reflected fully in price would be open to question. In many instances, other considerations would undoubtedly govern. Price based upon cost alone might have the effect of inducing the consumer to buy a size or type unsuited to his particular needs. Also, complexity in prices should be avoided. In view of the many variables involved, this means that some variations in cost would have to be disregarded in order to secure a relatively simple, easily understood and administered price structure which would have a strong promotional value.

Variations of Size. In many instances, it is advisable to avoid price differences based upon size, even though there are variations in cost. Customary prices may almost demand such action. In reference to size, garments are a case in point. Through uniform pricing, both complexity and purchase of wrong sizes based upon price are avoided. In pharmaceuticals and foods, it is simply a question of the amount of products offered. People may wish to purchase in different-sized packages because of differences in purchasing power or relative need over time. The basis of the price differentials is likely to be cost, but the manufacturer may allow other factors to affect his decisions. For instance, competition may be stronger in some sizes than in others. Promotional objectives may be achieved through the mechanism of price. A price higher than would be warranted by comparative cost alone might be placed on a small package to induce greater purchases in a larger size. In the case of a new product, the manufacturer might set a relatively low price on a small size package in order to induce trial use and later purchases. There is much to be said for inducing purchases of large size packages. This is done through basing price differentials on cost. Not only does the consumer get a better value in large packages through a decrease in packaging and handling costs, but, for various reasons, more of the product is likely to be used and the manufacturer will benefit thereby.

Variations of Design. Variations in design cannot safely be based upon cost alone, as was indicated in the General Motors illustration. While cost differentials may be the starting point in determining price differentials, other factors—particularly, the intensity of demand at various price levels and the relative strength of competition in various models—must be allowed to modify any tentative differentials based on cost if maximum returns are to be secured. The strategy of pricing for high-price, household durables, as previously indicated, is to in-

crease price more than proportionately to increased cost as additional features and gadgets are added to the basic model.

Variations of Quality. As a matter of promotional strategy, some high-quality items may be added to a line for purposes of prestige. A clothing manufacturer, for instance, may have some items in his line of unusually high quality for trading-up purposes. He may not expect to sell many of them, but the fact that they are in his line creates a favorable impression toward the line as a whole. The prices on his lower quality items may be related directly to cost, but this is not so on the prestige items. The primary purpose of the prices on these items is to create prestige through design and price, rather than to sell this merchandise in large volume. Prices will be determined more by the market than by cost.

In a depression period, or whenever competition is especially strong, the differential between cost and price on certain items in a line may be set at a considerably lower level than on others. For instance, competition from private brands may be particularly strong in some areas. It may be decided to produce for the private brand distributors or to establish a "fighting brand" and to price it at rock bottom. Costs may be reduced by placing the product in a cheap package, not advertising it, and by reducing dealer margins. Despite these cost reductions, a lower spread between cost and price than is customary may be accepted. If the company's distributors want something which will compete on a price basis, the company will have it for them. Purchase will not be suggested; the product will not be pushed, but it will be available. In the durable goods field, strip models meet much the same objective.

Variations of Material. Product quality and product material are, of course, very closely interrelated. Whether it be in furniture, garments, floor coverings, or other consumers' goods, people associate value with the principal type of raw material used. Whenever there is an awareness of raw material values, even on a rough scale—for instance, as between maple and oak or silk and cotton—prices based upon cost differentials as between them are readily accepted. It may be discovered, nevertheless, that the evaluation which the market places on the scarcer and more costly raw material in reference to others will permit a higher price differential between cost and selling price than that suggested by relative cost. The finished product will be one of those which appeal to those consumers to whom quality is more important than price. So again the price analyst must be guided by the market as well as by cost.

Variations—Special Designs. Manufacturers are often asked to make bids on merchandise of special design. For some reason or other, the specifications of items in the regular line are not considered satisfactory. Usually a company does not want to interrupt manufacturing

operations to handle such special order business unless it has idle capacity or the request comes from a particularly good customer. Or, perhaps, the changes desired are not great and thus not particularly disruptive of manufacturing operations. In that event, the prices quoted can easily be related to prices of similar standard items with slight revision, perhaps, for certain special features whose added costs have been computed.

If the special design requested is distinctly different from standard designs, total cost plus a reasonable profit margin is likely to be computed as a starting point in pricing. Variation from this tentative price depends largely on the position of the manufacturer at that time regarding orders and manufacturing capacity—that is, his need for orders—and, also, on the position of the potential buyer. If the manufacturer's position is strong, he may quote on the special design business, but at a high price in relation to costs, perhaps on a "take it or leave it" basis. In contrast, if his position is weak—that is, if he needs the business—he may quote a price which will yield something, but perhaps very little, above out-of-pocket costs. This will be the lowest price which he can afford to accept.

An appraisal of likely competition for the order will also influence his pricing decisions. Perhaps the buyer cannot get a product with the specifications desired from other sources. Then the seller can be much more independent in pricing and his margin above cost will be greater. Other than under depressed conditions, however, the prices on special designs are likely to be higher than on standard items.[16] Production costs will be higher because of shorter runs, special tooling, and other increased manufacturing costs, including disruption of manufacturing operations on other designs. Selling cost may actually be lower because the amount sold at one time may be greater than usual. But cost computations are likely to suggest higher prices than those established on the designs usually produced.

PRICING OF REPLACEMENT PARTS

The pricing of replacement parts is one element in a much broader marketing problem. This problem is concerned with the extent to which a manufacturer should be responsible for his products subsequent to their sale and how this responsibility should be assumed. In durable goods, the consumer actually purchases a utility; and, if he cannot secure it through his own efforts, some responsibility must be assumed by the manufacturer. Thus the manufacturer gives warran-

[16] There are exceptions to this generalization; for instance, a manufacturer of small hand tools may specially design certain items for sale to mail-order houses, and sell them at a low price. The manufacturer may wish to differentiate the mail-order line from the one customarily sold to "regular" outlets.

ties, offers service agreements at the time of sale, and makes extensive provisions for service which include the ready availability of repair parts.[17] Owners expect this service; and if it is forthcoming, the dividends in customer satisfaction, goodwill, and, particularly, in product loyalty and repeat purchases may be great.

The principal elements of service are availability and cost. Cost, in turn, is a function of the amount and cost of the labor involved and the cost of repair parts. Often the total repair bill is dominated by labor cost, but repair parts may constitute a substantial portion of the total. Because of the effect of service upon customer satisfaction and repeat purchases, manufacturers have attempted to keep repair costs at a reasonable level by suggesting standard charges for labor on various types of repairs to dealers. While some control of this character over dealers may be exercised through an exclusive agency arrangement, at best it is none too effective. On repair-parts prices, they have much fuller control. While parts are not likely to be under price maintenance, still the dealer, if the margins suggested are reasonably ample, is not likely to charge higher prices than those suggested by the manufacturer.

Manufacturers follow dissimilar policies in the pricing of repair parts. Some of them believe in a low-price policy—one which will reduce service costs and thus tend to maximize consumer satisfaction, also one which will encourage the use of "genuine" parts rather than "pirate" parts. As equipment becomes older, the costs of repair parts become greater, for they are either made in smaller quantities or have accumulated inventory charges. Still, for the same reasons, their prices are not likely to be raised as time goes on. One of the large electrical equipment companies, after noting that the pricing of parts is important because of its ultimate effect on the cost of service to the customer, stated (1) that the over-all objective in pricing parts should be to recover all costs, including warehousing and distribution expenses, and (2) that consideration should be given to such factors as industry practice and the discount structures which must be set up to cover secondary distribution costs. This implies a low-price policy, even little attempt to make profits on repair parts. For a large, successful company which can afford to take a long-range point of view, this policy may be a sound one.

The justification for a relatively high price on repair parts is likely to be based upon the following considerations: (1) that a high price is not particularly noticeable when the price of parts is dwarfed by the cost of labor; (2) that the revenue from repair parts is an appreciable part of total revenue and, consequently, (*a*) that they should be profitable just as any other product in the line and (*b*) that failure to

[17] See Chapter XV on "Warranty and Service Policies."

make profits on parts makes necessary higher prices on original equipment if the same profit level is to be maintained; and (3) that a high level of profits on parts may be necessary to assure the availability and general adequacy of the service given.

It might be argued that a high price on repair parts is incompatible with the idea of adequacy in service; that the concept of adequacy includes service availability wherever needed, promptness in furnishing service, and a reasonable cost, which, in turn, is a function of the level of efficiency on the part of repair men, hourly wage rates, parts prices, and the level of profits of the enterprise which offers service. While there is some virtue to the argument that service adequacy is in part a matter of its cost, the factors of availability, promptness, and quality of service are much more important attributes and should not be sacrificed to lower cost. If a high price level on service parts helps a manufacturer to improve the over-all quality of his service, there should be little hesitancy in establishing such a level. The case for at least normal profits on repair parts is a strong one.

In supplying repair parts for widely used consumers' durables, the manufacturer of the original products is rarely entirely free of competition. There may be many so-called "pirate parts" manufactured and placed upon the market. While these parts do not have the aura of genuineness, as do the parts produced by the maker of the equipment, still they do furnish competition. The pirate-parts manufacturer must price his parts at a somewhat lower price than the equipment manufacturer to overcome the doubt of serviceability in consumers' minds. Moreover, he can do so, for he may produce and sell only those items in greatest demand, thereby leaving the "complete line" problem to the original manufacturer.

The equipment manufacturer has strong competition in some items, not in others. Nevertheless, he has a strong inducement to compete effectively in all because the parts of other manufacturers may not be of good quality or otherwise serviceable and the reputation of the complete unit may thereby suffer. These factors must be taken into consideration in the pricing of parts, as well as costs. Numerous small and large parts cannot be kept in a consistent relationship with costs, nor should they be in view of varying degrees of competition. In order to set reasonable prices on the whole parts list, judgment must be used in evaluating the significance of each of the affecting factors—among them, the need for as much simplicity as possible in the pricing structure.

SUMMARY AND FINAL COMMENTS

In the process of determining a proper level for his prices, the manufacturer should attempt to isolate the factors which affect price, discover their interrelationships, appraise their relative significances

in view of his specific situation, and, wherever possible, measure their effects for purposes of guidance. Something approximating this procedure is followed in all instances, whether pricing is done haphazardly or in a thoughtful and painstaking manner. The problem is a difficult one, for price determination is essentially predictive in nature. In the process of reaching a decision, the price analyst is attempting to look forward to see what effect prices at different levels will have upon sales, costs, competition, and public attitude toward the company and its products. The previous experience of the company and the experience of other concerns, if well analyzed, can be helpful in reaching decisions. Basic concepts in regard to prices and to price and demand relationships for various types of product furnish guidance. Tools of analysis—such, for instance, as the break-even chart—are particularly helpful.

Pricing formulas are often useful as a starting point in pricing, but seldom, if ever, are fully determinative of the prices which should be established. They are only an aid to judgment, not judgment itself, for there is no invariable relationship between the phenomena which affect prices. The procedure is one of weighing the various factors, always in the light of pricing policies; of balancing them one against another to determine their relative significances in view of the specific situation which prevails; and, with all the insight which can be brought to bear upon the problem, of reaching pricing decisions. Admittedly, the outlines of this process are not very clear. Just how executives arrive at any major decision is difficult to determine. But in so far as it can be determined, this is the nature of the decisional process in pricing.

Finally, the need of careful analysis looking toward the formulation of pricing policies should be stressed. It has often been said that a poor policy is better than no policy at all. While this generalization might well be doubted, it does imply the virtue of consistency because the word "policy" suggests continuity in thought and action. At least, a policy is likely to be a reflection of long-range objectives in view of the circumstances which surround the particular company such as size, age, location, reputation, financial resources, and product acceptance. Because of variations in these factors, what is good policy for one concern may be untenable for another. Yet each should have a policy in reference to prices for purposes of guidance, for there are few, if any, managerial decisions of greater importance to the business enterprise.

A periodic audit, both of pricing policies and procedures, is desirable, for it will lead to considerable questioning and, perhaps, to improvement in performance. It is an area in management's responsibilities in which improved performance is needed. As stated previously, one who attempts to investigate pricing policies and practices

soon begins to feel that, in many instances, defensible ones have not been evolved and clearly enunciated, and, particularly, that pricing is too opportunistic and not sufficiently the outgrowth of historical perspective and careful research.

REVIEW AND DISCUSSION QUESTIONS

1. Although pricing may not be entrusted solely to marketing executives, they have much to contribute and should thus have a major share of the responsibility for pricing decisions. Comment.
2. Contrast the position of the monopolist and that of the manufacturer who operates under conditions of "imperfect" competition in reference to the problems involved in price determination; also in reference to the probable results of pricing.
3. It is often assumed that businessmen always seek to maximize profits when pricing goods and services. On what bases may this assumption be questioned?
4. What is the purpose of classification such as that attempted in reference to pricing problems? What bases of classification were used? What pricing problems are particularly difficult to classify?
5. Many businessmen think in terms of factory cost, plus distribution cost, plus a reasonable return on investment, as the proper procedure in price determination. Others would argue that this "cost-plus" procedure is wrong; that the more correct procedure is to think in terms of market price, less distribution cost, less production cost, as determining the profit figure. Which is the more realistic approach to the pricing problem?
6. What is the break-even type of analysis designed to do? Why is it of particular value as a tool for those engaged in price determination activities?
7. Cost data is of little significance in pricing unless the volume base on which costs were computed is known. What are the volume bases which may be used for cost computation? Under what conditions may the use of each of these bases be justified?
8. In what particulars is the position of the manufacturer of a new product in reference to pricing different from that of manufacturers of competing products which have been on the market for some time? How may the manufacturer's position affect his pricing policies?
9. What defense can be made for the assertion that the policy for the pricing of new products of "low-price, mass-market objectives" in the American economy is usually a sounder policy than one of "high-price, limited-market objectives"?
10. Review the steps taken in "An Approach from Competitors' Prices" (pp. 291–93). Attempt to answer the following questions in reference to this pricing procedure:
    a) Is this approach to pricing one of "following the leader," or is it an approach which all competing manufacturers could use?

b) Are factors other than competitors' prices likely to be neglected in the price determination process if this approach is used?
c) May this approach reasonably be termed "a research approach" to pricing?
d) Is this pricing approach likely to secure a nice approximation between inherent values in competing products and the prices charged for them?

11. Review the steps taken in "An Approach from Cost Data" (pp. 293–96). Attempt to answer the following questions in reference to this pricing procedure:
a) Characterize the pricing procedure used by General Motors Corporation.
b) What conditions in the automobile industry serve to justify this approach to price determination?
c) What effect does the use of standard volume for costing have upon prices at different levels of business activity?
d) Is this approach to price determination likely to stabilize output? Profits?
e) Could this pricing approach be used with equal success by other companies in the industry; by companies in other industries?

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Chapter XI

ADMINISTRATION OF PRICES

THE previous chapter dealt primarily with the price determination process in reference to the level of prices for particular products and with the policies which govern such action. Now we turn to the questions involved in price variation from that level occasioned by various factors—among them, the type of purchaser, the amount purchased, the location of the purchaser, the time of purchase—and to other questions of price administration. These may be roughly classified into two broad categories: first, those which are concerned with varying prices from a level or base; and, second, those which are concerned with pricing arrangements. The first group includes price bargaining or negotiation, leasing as a pricing device, discounts and discount policy, delivered price systems, and price variations of a short-run character. The second group is not so directly concerned with the price charged as such but rather with pricing arrangements of various sorts, including notification of price changes, protection against price declines, and price maintenance. The subjects mentioned above will be discussed in turn, but with much greater emphasis on price variations, including the question of their legality—one which is omnipresent in the administration of prices.

PRICE VARIATIONS

General Objectives of Price Variations

Price variation is essentially a promotional instrument. Price can be varied in a multiplicity of ways in order to make products more attractive to potential purchasers, whether they purchase for use or for resale. This can be done, as noted in the preceding chapter, either by changing the product itself in size, design, packaging, or in basic quality and by reflecting these changes in prices, or by varying the price on units of the same product. The immediate objective in each case is to influence demand favorably, thereby aiding in the attainment of long-run objectives of the business enterprise. While, admittedly, prices are varied at times with objectives of charity and public service in mind, or as a means of implementing personnel policy, the basis of action is usually directly concerned with promotion. Any one

or more of the following more specific objectives may be the motivating force or forces behind variation in prices:

1. *To Meet or Overcome Competition.* There is a competitive aspect to any price negotiation unless monopoly exists in the goods desired by the potential buyer. It often appears as pressure exerted by the buyer for lower prices with full realization by both parties that alternative supply sources are available. Barring collusion among sellers, any bids on contracts, whether open or secret, are likely to result in price variation because competition will vary in strength under the different circumstances which prevail in reference to any particular order. Even the Robinson-Patman Act recognizes that prices can reasonably be varied to meet competition in good faith.

2. *To Reduce Seasonal or Other Temporal Variations in Demand.* At times manufacturers offer goods at lower net prices during those seasons of the year in which demand is at a particularly low ebb. These are referred to as "temporal" discounts. They are offered in the interests of stability in manufacturing operations, also to minimize the carrying costs and the risks involved in inventory accumulation. Reduced passenger fares on night-time flying and on hotel room charges on those days in the week when occupancy is particularly low are other cases of temporal discounts.

3. *To Adapt Price to the Utility Received by the Individual Purchaser.* Although it is recognized that the utility received from a product by different buyers varies greatly, there are relatively few instances in which this fact is taken into consideration in pricing. In most instances, the possibilities of measurement of the utility given are negligible, particularly for consumers' goods. In machinery and equipment, however, such possibilities exist and, through leasing, returns are varied to some extent on the basis of relative use of the leased products.

4. *To Induce Purchase by Different Classes of Buyers.* This objective is the familiar one of attempting to realize upon the varying economic significances of the product to different economic and social groups through price variation. It differs from the second objective listed only in that groups rather than individual purchasers are considered. In a sense, the objective is to charge what the traffic will bear. There are many illustrations where the product is identical, and yet the prices charged different groups vary substantially. Varying prices of electric current and transportation—the first as between industrial and domestic users, and the second as between bulky, low-value commodities and nonbulky high-value merchandise—are the instances most commonly recognized. In goods, as over against services, regulatory bodies do not recognize so fully the essential reasonableness of price variation for this purpose. Therefore, its practice is restricted; but there are still many instances in which it is practiced,

often under the cover of some changes in the product itself, as in the case of high-value household durables. Bases of price variation may be the age, sex, or occupation of potential buyers, or, more usually, levels of purchasing power and intensity of desire. Competitive bidding, which often results in people paying different prices for various units of the same product, is varying price on this latter basis.

5. *To Compensate for Services Given or Functions Performed.* When goods are sold to distributors for resale, they are given discounts from a list price to compensate them for the services which they perform. Small discounts are also given for promotional work which customers presumably will do in the seller's behalf. The advertising allowance is a case in point.

6. *To Favor and Preserve Some Distribution Channels, Disfavor Others.* Through the discounts which he offers to different customer groups based upon trade status the manufacturer can favor some, disfavor others, if he thinks that it is in his interest to do so. For instance, if dissimilar prices are charged through discounts on purchases of the same amounts of product under approximately the same conditions to wholesalers and chain store companies—a practice which is not forbidden by price legislation—one or the other is favored. Some manufacturers have felt that the wholesaler should be preserved as a marketing institution in its competition with the chains, and have taken the price variation route to influence the outcome, probably unwisely, however, and without much lasting effect.

7. *To Minimize the Effect of the Location of Production Facilities on Price.* Prices which the buyer pays for many products vary, simply because of varying distances from the point of their origin. Transportation costs substantially influence the "point of use" prices of some products, particularly those which are relatively cheap and bulky. In order to sell his goods at the same delivered price wherever the buyer is located, some manufacturers have adopted a policy of absorbing freight, thereby realizing different net amounts depending on the amount of freight absorbed. The effect of the location of production facilities is thus neutralized as far as the buyer is concerned.

8. *To Increase the Utilization of Production Facilities.* Lower prices are often accepted on certain orders simply because they cover all out-of-pocket costs and contribute something to overhead costs. If the orders could not be secured if higher prices were charged and if the capacity which production of them required would otherwise be idle, purchasers at regular prices are not disadvantaged but rather may be benefited by having the orders accepted. Selling products abroad at lower prices than in the domestic market because export business contributes something to overhead is an often misunderstood practice, but a defensible one under this condition.

The question arises whether these objectives, if realized, result in

discrimination among buyers. The answer is definitely in the affirmative in many instances, negative in others, but often of the "yes and no" variety. When prices are varied to meet competition, there is discrimination if certain buyers are charged lower prices than others under approximately like cost conditions, a situation that is likely. Temporal discounts, if offered to all buyers, are not likely to be discriminatory. Adapting prices to the utility received by the purchaser by means of leasing may or may not be considered discriminatory, depending upon whether emphasis is placed on the equipment's availability for use or the sale of a service. Varying prices on the basis of functions to be performed obviously may or may not be discriminatory although this practice often cloaks discrimination. Delivered prices may be considered discriminatory simply because they deny some buyers the advantage of their locations in reference to the site of production. Attainment of the other objectives listed results in some discrimination almost inevitably. Nevertheless, such discrimination is not necessarily adverse to the interests of the parties against whom it is practiced. It may be advantageous to them if output is increased and production at a lower per unit cost is thereby achieved. An attempt to eliminate all discrimination would increase the work required for price administration and create complexity in the pricing structure to the benefit of neither the seller nor the buyer.

POLICIES IN REFERENCE TO PRICE VARIATIONS

There are three basic concepts widely recognized in reference to price variations. They are the concepts of variable-price, nonvariable price (one-price), and single-price. If a manufacturer offers like goods for sale at a given time to similar buyers who purchase in comparable quantities at different prices, he is following a *variable-price* policy. Conversely, if under the same conditions he offers goods at the same prices, he is following a *nonvariable* price policy.[1] If he charges the same price to all buyers regardless of the conditions surrounding purchase, he is following a *single-price* policy.[2]

The variable-price policy is a discriminatory one, for different prices are charged under approximately the same conditions surrounding purchase. The nonvariable price policy obviously is one which attempts, in so far as possible, to eliminate discrimination. The single-

[1] In basic marketing texts the term "one-price" is customarily used rather than "nonvariable" in reference to this policy. The latter is to be preferred, however, because there is no distinction in meaning between the word "one" and the word "single," a word which is used in distinguishing a quite dissimilar policy.

[2] Quality and style differences may be disregarded under a single-price policy—for instance, all men's shoes may be sold in a chain of stores at $8.50 per pair. In applying the policy, however, the manufacturer, in contrast to the retailer, usually thinks in terms of a like price to all buyers for identical products.

price policy is discriminatory, but only if there are differences in the costs of servicing various customers. If there are such cost differences and the manufacturer fails to recognize them in the prices which he charges to different buyers, through discounts or in some other manner, he is following a discriminatory price policy, although the prices quoted are identical. Either price likenesses or price differences may, therefore, be discriminatory in effect, although this fact has not been sufficiently recognized in price legislation or in its administration.

A Variable-Price Policy

The greatest advantage of a variable-price policy is its flexibility in use as a promotional weapon. It can be used for doing certain things which are of advantage to the seller, possibly likewise to the buyer. Some buyers, particularly in the wholesale trade, prefer to bargain. If the salesman is given the authority to shade prices within certain limits, he can meet competition where he finds it and immediately make the price adjustments necessary. Emphasis in legislation on nondiscrimination in pricing rightly assumes that certain buyers cannot protect themselves against discrimination, but industrial buyers and many of those who purchase for resale can do so. Under this circumstance, the advantage in bargaining is not one-sided. Then, also, a variable-price policy may be entirely justifiable as noted in reference to some of the objectives previously listed.

Nevertheless, a variable-price policy is productive of friction and dissatisfaction. If customers find out that other parties have obtained a more favorable price and reasons therefor are not apparent, they are likely to be disgruntled. This is particularly true if they have placed their confidence in the seller with the expectation of fair treatment and have not bargained over price. Often the poorest customers, as judged by quantity of purchases, regularity of patronage, and credit experience, are those who insist on prices lower than those quoted. A company's weakest salesmen are those most likely to give ground on prices. It may be the easiest way out of a difficult situation. Whereas emphasis on merchandise quality and service might get the order, price reduction may be used even when it is actually unnecessary. These factors have led many concerns to a nonvariable or a single-price policy.

A Nonvariable-Price Policy

There is innate fairness in the concept of a nonvariable price, for by definition it is a nondiscriminatory one. But, administratively, it is not possible to achieve fully because there are so many factors which, if not nicely adjusted in price, produce discrimination. If he so

chooses, the manufacturer can, nevertheless, eliminate the greater share of discrimination. It does not follow that buyers will *think* that prices are nondiscriminatory, however. Nonvariable prices will *not* be *like prices* to all as they are adjusted to the costs incurred in serving different customers. Still, they can be defended. They also can be used as a promotional weapon, for within the boundaries of differentials in distribution costs to various customers there is likely to be sufficient leeway for price variations of considerable magnitude which can be used to attract potential customers. In this connection it should be mentioned, however, that in the administration of the Robinson-Patman Act, the Federal Trade Commission and the courts have not always recognized the differences in sales costs which have actually existed, thereby restricting the use of price variations for promotional purposes even when they were capable of justification.

A Single-Price Policy

This policy is illustrated by the pricing of an electric refrigerator manufacturer who charges the same prices to all buyers for the same model regardless of the quantity which they purchase, with but one slight exception—a small discount in carload shipments versus L.C.L. shipments. A single-price policy such as this, although not necessarily nondiscriminatory, has much to commend it. It has the appearance of fairness; it builds goodwill, especially on the part of small buyers, and increases confidence in the manufacturer; it saves the time of home-office people and salesmen; it is easy to administer; and it reduces the emphasis on price, thereby allowing salesmen to concentrate attention on product quality and service. Moreover, the maintenance of a resale price from distributors to consumers and advertising of prices are usually associated with a single-price policy. Nevertheless, a single-price policy is questionable, for some buyers want discounts, feel that they are entitled to them because of lower costs incurred by the seller, and are likely to take their business elsewhere if discounts are not forthcoming.

CHANNELS OF PRICE VARIATION

Some of the means for putting price variations into effect will now be discussed, among them price bargaining or negotiation, leasing, discounts, delivered prices, and price variations of a short-run character. A discussion of the legality of these means will follow.

Price Bargaining—Negotiated versus Established Prices

Every manufacturer must decide whether to sell on the basis of negotiated or established prices. This, essentially, is a question of an

individual or a group approach to pricing. The decision will rest largely on the extent of similarity in the product or service desired by different potential buyers. On one end of the range will be products with certain special features or specifications desired by only one buyer. Since specifications are subject to negotiation, prices will be also. Finally, a deal will be made and production will go forward. At the other end of the range are products of a highly standardized character and of low value for which negotiation over price would be desired by neither party to a transaction. In between these two extremes negotiation to a varying extent takes place depending upon the type of product and to what extent it lends itself to variations to meet individual desires, the level of business activity, and the attitudes of the parties involved. Even when a single-price policy has been announced, bargaining over prices is not at all unusual although now restricted more than previously by the illegality of price discrimination under the Robinson-Patman Act.

Both established prices and negotiated prices have certain advantages and disadvantages. Established prices permit salesmen to quote prices immediately without reference to the home or branch office for an estimate or quotation. Prices may be announced to the public, referred to in advertising, and used as an active selling weapon. Moreover, established prices reduce the number of price decisions which are necessary, since the same price is used in most transactions. When prices are established, announced, and thus known by potential buyers and, particularly, if the company follows a single-price policy, accusations of price discrimination are less likely. Finally, established prices have the virtue of eliminating in large measure the higgling over prices which is time consuming and thus costly. Other problems are created, however—principally those concerned with means for the communication of prices to the market.

Negotiated prices, in contrast, give greater flexibility in pricing, do not commit management beyond the one contract to which the price applies, and result in a nicer approximation of value given and received. For instance, established prices often include elements of transportation, service, and allowances of various sorts for promotion. The service and transportation may not be used in the same proportion by all buyers, nor may the promotion be realized upon equally by them. In that event there is some discrimination present through the application of an established price. When prices are negotiated, these are also negotiable matters, and the prices determined are likely to reflect the amount of service, transportation, and promotion agreed upon by negotiating parties. Yet, it should be recognized that the fact of individual negotiation in reference to price may lead to discrimination. However, discrimination may not be noticeable, for it is likely that the product itself will differ, perhaps substantially, as between buyers in those instances in which negotiation is practiced.

Approach to Price Negotiations. The manufacturer is likely to approach negotiations with some level of prices in mind. It may be that the potential buyer wishes only some changes on standard models which will better adapt them to his needs. Then rough allowances can be made for variations in size, relative complexity, differences in materials, etc. However, the price established for the standard model is the point of departure in pricing. Or, if the specifications of the product wanted are distinctly different than those customarily manufactured, the seller is likely to proceed directly from cost estimates. These can either be carefully worked out estimates or merely judgments based upon long experience. Or they may be rough approximations based upon some pertinent factor from which a formula can be derived for guidance in pricing. Among these might be a direct labor cost estimate which is then multiplied by a predetermined factor, a gross weight estimate which is then multiplied by a value per pound figure, or a cubic foot estimate which is then multiplied by a value per cubic foot figure. These are simply short cuts based upon previous experience which save labor in making the more detailed estimates which would otherwise be necessary.

After cost estimates have been made, they are usually subject to review by higher executives who consider them from other angles—a process similar to that followed in the determination of established prices. Among the subjects considered are the backlog of orders, the need of additional business, the competitive situation, present business conditions and discernible trends, and alternatives for securing increased volume. Sales executives are likely to think in terms of later potential business from the same customer, whether the contemplated order will lead to more business from other customers of like type, and whether leads of a merchandising character are likely to be forthcoming. When special order business in which the company is interested is brought to their attention production men seek ways to lower costs through modification of production methods thus making possible a lower price quotation. They may also discern means for improving the productivity of the product, thus increasing its value in the eyes of the potential buyer. Financial executives may think of contemplated orders from the point of view of working capital position.

The point of the foregoing discussion is that many people in an organization may have something to contribute to price negotiations, particularly when the order under negotiation is a large one—for instance, the equipment for a large electric power installation. A company's negotiators must be armed with information of various types if they are to secure the order at a price which will yield a reasonable margin. Moreover, in instances of this character, a company's negotiators should be able and experienced because the stakes may be high

and the results may substantially influence both present and future profits.

Price negotiations may be carried forward for a particular order or for all purchases made over the life of a contract or a period of time otherwise determined. Companies which sell fabricated products, such as containers, or parts for assembly to other concerns are likely to work under a long-term contract with renegotiation of the contract at periodic intervals. In such a contract, not only is the price specified but also details of performance, such as specification tolerances, delivery schedules, and payment schedules. Even sales calling for the fabrication of a regular product may be made the subject of a contract, with the price and other terms individually negotiated. In such instances, the buyer is likely to be a large one—for instance, a chain store company or a mail order house—at least one whose business is sufficiently important to the seller so that he is willing to negotiate a contract for sales over a considerable period.

Leasing as a Pricing Device[3]

A manufacturer of machinery or equipment may find that his products have differing economic significances to various potential customers—that is, one buyer can afford to pay one price in view of what the product will do for him whereas another buyer can afford to pay a much higher or lower price. In one instance a new measuring device to indicate weight and moisture content in moving sheets of material during the manufacturing process was useful to many industries, including paper and rubber manufacture. Perhaps, in such an instance, only the highest value use will be promoted immediately and no question of relative prices will then arise. But, in order to get volume and additional profits, lower value uses will probably eventually be promoted and then the question will arise. The problem involved is to find some way of charging what the traffic will bear and still not be charged with discriminatory practice. One means of so doing is the leasing arrangement.

Leasing is essentially a means of applying a price. By strict definition it is a contractual arrangement by means of which the use of a fixed asset is transferred by its owner for a certain period to another party for a consideration. More realistically, it is a contract for an outright sale of a service, but not of the product through which the service is given. Therefore, a manufacturer may either sell equipment outright, lease it, or, perhaps, make choice optional to potential users.

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[3] The following discussion of leasing has been partially adapted from a recent, comprehensive study of this subject by Wilford J. Eiteman and Charles N. Davisson, *The Lease as a Financing and Selling Device* (Michigan Business Report No. 20, Bureau of Business Research) (Ann Arbor: University of Michigan, 1951).

For instance, Remington Rand, Inc. will either sell or lease certain machines. Leasing is practiced for many products—among them, office, construction, transportation, and refrigeration equipment; likewise for shoe manufacturing, container, tobacco, and textile machinery, and for machine tools of certain types.

Leasing from the Manufacturer's Point of View. Some companies see many advantages in leasing as an alternative to outright sale where potential buyers are severely circumscribed financially. Leasing extends the market and lowers sales resistance, for buyers are enabled to secure equipment at a much smaller initial outlay of funds. Manufacturers who lease equipment at a flat rate are not particularly subject to fluctuations in earnings in a depression period. In fact, in depression their earnings are likely to be reasonably stable and their cash outgo reduced, thereby creating a favorable working capital position. If the leasing rate is in terms of so much per unit of output by the lessee, fluctuations in earnings from year to year will be much greater. Yet a minimum figure may be stipulated which protects earnings to some extent. As control of the equipment is retained and a very close relationship exists with the lessee, sales of auxiliary equipment and supplies are facilitated.[4] Of particular importance is the fact that the manufacturer has control over the timing of introduction of new models or improvements, and, to some extent, over the use of the leased equipment by the lessee.

The disadvantages of leasing are largely associated with risk. Only large companies with a strong financial position have the resources or can get them to carry such a large amount of equipment. Equipment holdings may soon dwarf the production of any one year. There is risk involved in such holdings because competitors may design more acceptable products for like uses, leases may then be allowed to expire, and equipment of doubtful value must then be repossessed. Then, also, leasing complicates both initial pricing and price administration as we shall see shortly.

Leasing from the Buyer's Point of View. The advantages of leasing are largely confined to small buyers with limited capital resources. Some of them would simply not be able to secure the funds necessary for outright purchase. Entry into some types of business activity would therefore be denied. Even if they did have the necessary funds,

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[4] It should be noted that the leasing agreement has been used in the past to "force" the purchase of auxiliary equipment and supplies exclusively from the lessor. Such action has been considered by regulatory bodies as an abuse of the leasing agreement. A number of concerns have been enjoined from using various restrictive and tie-in clauses in their leases—for instance, the "supplies clause" which provided that the lessee should purchase supplies exclusively from the lessor. While the manufacturers plead that the use of other supplies might impair the effectiveness of the equipment, this argument was not considered sufficiently compelling to justify the exclusion of competition from the supply business.

it might pay them to lease equipment provided the funds available could be used so as to secure a higher rate of return in other employments. Most important, however, leasing gives greater flexibility and reduces risks, among them the risks of obsolescence through new product development or product improvements, fixed costs in times of depression, and inability to dispose of old equipment no longer needed. If there is uncertainty of successful operation—as there always is when a new enterprise is launched—leasing of equipment reduces the risk.

A further advantage is that, under a leasing arrangement, a close association is maintained with the equipment supplier and his engineering and technical staffs. Service, both by way of instructions on the use of the equipment and on the equipment itself, is likely to be excellent because the manufacturer has a stake in continued operations. In contrast, there are few disadvantages in leasing, particularly by small concerns, other than the likelihood of a somewhat higher over-all price for the services given by the equipment, certain restrictions which may be placed on use of the equipment by the lessor, and the bother of periodic check-ups and payments.

Conditions Which Favor Leasing. The conditions which favor leasing may be summarized as follows: (1) a relatively large number of small potential buyers with limited financial resources, (2) ability on the part of potential buyers to use their available capital in employments which give a higher rate of return than could be secured through an investment in equipment, (3) the likelihood of rapid obsolescence through improvement in equipment designs, (4) ability of the manufacturer to secure the funds necessary to carry a heavy bank of equipment in users' hands, (5) a desire on the part of the manufacturer to control (a) the manner in which his equipment is used by other concerns and (b) the timing of introduction of new or improved models, and (6) the importance of the manufacturer's supplies business in relation to equipment sales. The inference should not be taken from the foregoing remarks that the factors listed must all be present to justify leasing. Rather these factors favor leasing and suggest a "typical" leasing situation or environment. A study of the various instances in which leasing has been used indicates that there are many quite diverse situations in which it may properly be considered as a method of pricing.

Determination of Lease Rentals. Determination of lease rentals is an extension of the pricing problem. This fact is most easily recognized in those situations in which the potential buyer is given the option of a lease or outright purchase. For certain Remington Rand, Inc. equipment, the purchase price quoted was $50,070, whereas the annual lease rental was $9,780, or approximately one-fifth.[5] Offhand

[5] Eiteman and Davisson, *op. cit.*, p. 78.

the rental figure appears too high, yet in this instance the company apparently was emphasizing the advantages of ownership. Still the privilege of leasing or purchasing *suggests* that the sale price and the lease rental have been so adjusted that it is a matter of indifference to the manufacturer which one is accepted. While the buyer must decide which of the two is most acceptable to him in view of his particular situation, the margin of advantage in either direction probably is not great.

In determining the rental figure, the manufacturer must take into account certain costs above those which are assumed under outright sale. Some of these, termed ownership costs, are interest, insurance, depreciation, obsolescence, and other elements of risk. In addition, there are increased costs of servicing the equipment and administrative costs which would not otherwise be assumed in like amount. Through experience with leasing, many of these costs can be projected forward without much difficulty and then taken into consideration in determining the rental figure. Others, particularly depreciation and obsolescence, are much more difficult to predict. Depreciation must be based on an estimate of the service life of the equipment. Length of service is a function of intensity and manner of use and of the rate of obsolescence. The average rate of physical deterioration can be determined with some assurance, but the rate of obsolescence poses a much more difficult problem. It is a function of two variables: (1) the rapidity with which new products and product improvements will reach the market, and (2) the increased value in use which the new equipment will have relative to the old equipment—that is, its differential productivity. Thus the rental rate depends partly upon manufacturers' expectations regarding product improvement and new product development.

In establishing the rate, a manufacturer must appraise not only the likely fruits of his own product development work, but also the work of his competitors. The past rate of product improvement is not particularly helpful, for the results of technical research are not equally spaced over time. In view of the difficulties involved in prediction, the manufacturer is likely to veer toward a conservative figure—one which is actually less than the likely economic life of the equipment. Such a figure would be a hedge against the risk of unpredictable product changes of competitors.

The foregoing comments suggest that the manufacturer is likely to secure a somewhat higher net realization through leasing than through outright sale. This is a reasonable expectation because he assumes considerably greater risk which must be compensated for in some manner. In addition to the risk of obsolescence, there are those resulting from withdrawal from leasing arrangements, idleness of the equipment, repossession of equipment, nonpayment of rental charges, and

others flowing from the fact of continued ownership. In summary, the manufacturer, in establishing a rental figure, must take into consideration the factors which usually affect price plus the costs resulting from continued ownership, additional service, and administration of the leasing agreement. While there are many advantages in leasing which should enter into the judgmental process in establishing a rate, the principal factors are those of additional costs and risks.

Types of Lease Rentals. Three principal types of lease rentals may be distinguished as (1) the flat rate for a given period, (2) the rate per unit of output, and (3) the rate per unit of output with a minimum total charge. The type of rental depends, in the first instance, on whether it is practicable to measure output. For some products, such as shoe machinery, little difficulty would be encountered; for others —for example, International Business Machines sorting and tabulating equipment—the output could be counted, but it might not be practicable to do so. A flat rate is preferable from the viewpoint of maintaining stable profits. A per unit rate would subject the lessor to all the fluctuations in earnings experienced by the lessee in output. If a company's equipment was used by many dissimilar concerns, earnings would probably fluctuate roughly with changes in business conditions. Nevertheless, the per unit rate might have a favorable influence on demand for, to the lessee, the cost would be variable with output. The third type of rental has the virtue of the first but still protects the lessor against machine idleness and exceedingly wide fluctuations in earnings.

Discounts and Discount Policy

The most common discounts are those based on quantity purchased, trade status of the buyer, prompt payment, and promotional services. They are the familiar quantity, trade, and cash discounts, and promotional allowances. The nature of these discounts will be discussed only briefly as they are covered in basic marketing texts.

Quantity Discounts

Quantity discounts are reductions in price granted to buyers from a list price based upon the quantity purchased at one time or over a stipulated period. Presumably these discounts are based, at least in part, upon savings which result from servicing those buyers who purchase in large volume. That there are such savings in most instances is undeniable, but the discounts given may reflect these savings in any degree or may be considerably greater and thus not capable of justification on this basis.

Cumulative versus Noncumulative Discounts. Quantity discounts

may apply to particular orders, in which case they are termed "noncumulative" discounts or to all purchases over a period in which case they are termed "cumulative" discounts. Furthermore, specific discounts may apply to only one item or to all items sold. For instance, on orders up to $49.99, no discount may be given; on orders from $50.00 to $99.99, 1 per cent; on orders of $100 to $199.99, 1½ per cent; on orders of $200 and over, 2 per cent. Noncumulative discounts such as these offer considerable inducement to place larger orders. These orders aid in the reduction of selling costs. Solicitation, packing, delivery, order processing, and collection costs vary directly with the size of the order, thus noncumulative discounts may provide considerable savings. They may likewise reduce production costs to the extent that they facilitate planning or permit production in more economic lots.

The cumulative quantity discount is also termed a "deferred" or "patronage" discount. It is based upon all purchases by a customer over a period, often a year. It is usually cumulative in steps based on volume. This type of discount is illustrated by the discount schedule which follows which was once used by a manufacturer of paper products:

Annual Purchases	*Quantity Discount*
Up to $4,999	0%
$ 5,000–$9,999	1
$10,000–$14,999	2
$15,000–$19,999	3
$20,000–$29,000	4
$30,000 and over	5

The cumulative discount does not induce the buyer to purchase larger orders in reference to total purchases as does the noncumulative discount. The cumulative discount may induce him to purchase more, but not necessarily in larger individual orders. If the average order is not increased in size, savings in solicitation costs, packing, delivery, and so on are unlikely. Of course, customers may buy at one time and arrange for later deliveries as needed, in which case there is a saving in solicitation costs. Furthermore, orders may be larger under a cumulative discount plan than they would be with no discount simply because of the inducement to purchase more over a given period and because cumulative discounts induce exclusive purchasing from one supply source, even more than noncumulative discounts. It should be mentioned also that in case of product perishability there may be good reason for not increasing the size of orders. In that event, the cumulative type of discount would be more acceptable than the noncumulative type.

In addition to the fact that there is less basis in cost reduction for cumulative than for noncumulative discounts, cumulative discounts bring administrative problems. Dealers do not know until the end of

the discount period just what the goods which they have purchased actually cost. Yet, if the discounts of the coming year are based upon purchases of the past year, dissatisfaction is likely if purchases have increased. Errors are likely in selecting and applying the proper discount and friction may develop when buyers just fail to qualify for a higher discount rate. Moreover, to get into a higher bracket, there is considerable inducement to overbuy just before the end of the discount period. If many customers do so, instability in production may be created. If the discounts are based upon value, a reduction in prices may throw some customers into a lower discount bracket, even though the physical volumes of their purchases remain constant. In view of these factors, cumulative discounts are used primarily in cases where there is some likelihood of product perishability—for instance, in food products.

Reasons for Quantity Discounts.[6] Some of the reasons for offering quantity discounts have been mentioned or implied in the preceding discussion. In summary, they are as follows:

1. Quantity discounts are one means of meeting the ofttimes insistent demand of large buyers for lower prices.
2. Larger individual orders may be induced by quantity discounts. Larger orders result in savings as many types of cost are reduced thereby, and these savings, in part, may be retained by the manufacturer. Conversely, small orders may be forced to carry the burden of costs which can reasonably be assigned to them.
3. Quantity discounts, if applied to all products as a group, may result in full-line forcing. The sales of the weaker members of a product line may thus be facilitated with favorable effects on both costs and profits.
4. Quantity discounts induce continuous purchasing and exclusive dealing. Even though all competitors use a quantity discount scheme, fewer supply sources are likely to be used by the buyer than under a no-discount policy.
5. Quantity discounts, if properly geared to costs, permit a seller to follow a nondiscriminatory pricing policy within reasonably narrow limits by passing on the savings achieved.
6. At times quantity discounts have been used to obviate the need of buyer classification. Where some buyers are at the same time both wholesalers and retailers, it is difficult to apply a trade discount. Also when manufacturers sell to both the wholesale and retail trade and do not wish to favor either channel of distribution, quantity rather than trade discounts may be used.
7. Before the passage of the Robinson-Patman Act it was not unusual to offer quantity discounts greater than could be justified by a difference in the costs of manufacture, sale or delivery. Even in recent cases the Federal Trade Commission has alleged that this practice is still being

[6] See W. H. S. Stevens, "Some Laws of Quantity Discounts," *The Journal of Business of the University of Chicago*, October, 1929, pp. 406–26, and January, 1930, pp. 51–71.

followed. This suggests that discounts, ostensibly based on savings, had as their objective price reductions or rebates to large buyers who were in a position to demand low prices, and that this objective is still being realized in certain instances; either by intent or through a lack of knowledge of costs.

8. At times special quantity discounts are used opportunistically to achieve some particular purpose such as to reduce stocks of slow-moving items or to spur sales in general when they are lagging. The discounts may actually be of a temporal character or price reductions which have no basis in savings but they are designated quantity discounts and thus avoid reduction in the list price.

Trade Discounts

The trade discount is a reduction in price given to certain buyers because of the position which they occupy in trade channels. These discounts are given because the buyers perform certain marketing functions for which they should be compensated. A manufacturer, for instance, may offer wholesalers a discount of 40 per cent off list and retailers, through direct sales, only 25 per cent off list. The wholesaler, in turn, may offer the retailer the same discount as the manufacturer and thus compete directly with him for orders.

While variation in the discount given in a situation such as this is presumably based on differences in marketing costs, there are many cases at present in which the relative cost situation is unclear. Large retailers may buy in as large quantities as wholesalers. Then the question arises whether they should be given the same discount rates. Furthermore, in the past two or three decades, there has been a considerable change in the functions performed by wholesalers and other marketing intermediaries. They have either been pushed back toward the manufacturer or on toward the retailer. Cash and carry wholesalers, for instance, perform considerably fewer functions than old-line wholesalers. Chain store companies and the mail order houses perform wholesaling functions as well as those of retailing. These factors have complicated the determination of trade discount structures.

Few large manufacturers of convenience goods can entirely avoid the problem of trade discounts if they wish extensive distribution. Their products must be sold both through independent stores and chain stores to achieve maximum volume and, in many instances, the former will be served by wholesalers. If the chains purchase in as large quantities as wholesalers, little basis in costs may be present for differentiation in price. In fact, costs of selling to the chains may be less than to wholesalers. Still the manufacturer may favor the wholesaler through trade discounts; moreover, the manufacturer can legally do so if, in his judgment, it is good policy. As noted previously, a resort to quantity discounts avoids distinctions on a trade status basis.

From a long-run point of view, it is probably wise for the manufacturer to refrain from price variations based on trade status which cannot be justified by services given or savings in costs. Otherwise he is interfering in the competitive struggle between market intermediaries. Such interference is not in the public interest.

Cash Discounts

The cash discount is a reduction in price offered the buyer for the prompt payment of his bill. The familiar terms: 2 per cent, 10 days, net 30 days, gives the buyer the option of paying 98 per cent of the bill within 10 days after it is made out or of paying the bill in full in 30 days. Obviously, 2 per cent is much more than the usual interest for 20 days as, on an annual basis, it approximates 36 per cent on money borrowed. However, the favorable influence which the cash discount may have on the time of payment and on losses on accounts receivable may be sufficient to justify it. More likely, however, in most cases, the cash discount is given only because it is expected by buyers and has become a custom in the trade. Like any other discount, it may be so administered as to be discriminatory between buyers. Therefore, in the Robinson-Patman Act, discrimination by this means was forbidden.

Promotional Allowances

The promotional discount, in concept, is a means for recognizing the co-operation extended to the manufacturer by the distributor. Thus, presumably it is a payment for service in the form of a reduction in price on the goods in connection with which the service will be performed. The most familiar type is the advertising allowance, although the price reduction may be related to any sort of promotional work. The word "presumably" is used with intent because the allowances often are not used for the purpose intended. If the manufacturer gives a 2 per cent advertising allowance and leaves decisions to the dealer as to when, how, even if the advertising will be done, there is no assurance of performance. Then the price reduction must be justified on some other basis. If promotional allowances are given to some buyers and not others or if they are not available on proportionally equal terms to all based upon some reasonable criteria, they may result in discrimination between buyers. This was recognized in the Robinson-Patman Act and held illegal therein.[7]

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[7] The means for securing co-operation from distributive outlets and restrictions of various types on these means will be considered at some length in a later chapter on administration of sales programs and campaigns. Legal restrictions on promotional services and allowances is among the topics there considered. See Chapter XVI, pp. 517–23.

Legality of Discounts

Manufacturers are considerably restricted in their handling of discounts by regulatory legislation which seeks to prevent price discrimination. As noted previously, this legislation applies to quantity and cash discounts and to promotional allowances. There is nothing in the regulatory acts in reference to trade or functional discounts. No reference is made to classes of purchasers but only to purchasers. While it is therefore possible that trade discounts which were not true reflections of differences in costs to sellers, or the services rendered by classes of purchasers *might* be subject to attack by the Federal Trade Commission under the Robinson-Patman Act, there have been no actions taken on this basis. While discrimination in reference to cash discounts is forbidden, it is relatively unimportant and will not be considered further. Discrimination in reference to promotional allowances has been much more prevalent and has been specifically prohibited under certain circumstances in the Robinson-Patman Act. The question of its legality will be discussed later. Here we will be principally concerned with the legality of quantity discounts and of reducing prices in good faith to meet competitors' prices, even though such reduction may be discriminatory in effect.

Development of Regulatory Legislation. The Clayton Act of 1914, Section 2, prohibited discrimination in prices between different purchasers "where the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly in any line of commerce."[8] It did not purport to prohibit price discrimination as such but only pricing arrangements in interstate commerce which lessened competition or tended to create a monopoly. This section specifically exempted (1) discrimination in price between purchasers of commodities on account of differences in the grade, quality, or quantity of the commodity sold, (2) price differentials that make only due allowance for difference in the cost of selling or transportation, and (3) discrimination in price made in good faith to meet competition. It also provided that a seller could select his own customers and that nothing contained in the Act would prevent him from so doing.

Section 2 as interpreted and administered was not an effective instrument for curbing price discrimination. Initially the section was not interpreted as applicable to situations other than those which affected competition among sellers. Later it was interpreted to apply to those which affected competition among buyers, but the provision later found in the Robinson-Patman Act that discounts, if given, must be no greater than the saving in costs of serving customers who received the discounts was not present in original Section 2 and thus

[8] See the Appendix for a complete text of the original Section 2 of the Clayton Act and the Robinson-Patman Amendment.

small cost differences often were used to justify large price differentials.

As the result of weakness in this section, it was amended in 1936 by the Robinson-Patman Amendment, usually referred to as the "Robinson-Patman Act." It was recognized that the language of Section 2 (old), which exempted discrimination on account of differences in quantity, made elimination of price discrimination almost impossible under the Clayton Act in its original form because it was precisely in quantity discounts that much of the discrimination which affected competition among purchasers took place. Then, also, competition in the early thirties had been particularly severe because of depression conditions, and small independent wholesalers and retailers were looking for some manner of curbing the chains and other large competitors. One way of doing this was to restrict their advantages in purchasing which, it was suspected, proceeded largely from price discrimination in their favor on the part of many sellers. Thus the Robinson-Patman Act was in part a product of the times, in part of the admitted weakness of legislation then in force to curb discriminatory pricing.

Principal Provisions of the Robinson-Patman Act. Not only is the Robinson-Patman Act a complex regulatory instrument in itself but a large body of judicial interpretation has now accumulated which, while it aids in the task of understanding in some ways, still further complicates it in others. The broad objective of the Act (Section 2(a) and (b)) is to make it unlawful "to discriminate in price between different purchasers of commodities of like grade and quality . . . where the effect of such discrimination may be substantially to lessen competition or tend to create a monopoly in any line of commerce, or to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefits of such discrimination. . . ." The Act permits (1) price differentials which make only due allowance for differences in the cost of manufacture, sale, or delivery, (2) prices changes over time in response to changing conditions in the market or in the goods being sold, (3) rebuttal of a prima-facie case by showing that a lower price was made in good faith to meet an equally low price of a competitor, and (4) reaffirms the seller's right to select his own customers.

Section 2(c) outlaws brokerage allowances except for services rendered.[9] Sections 2(d) and (e) refer to promotional services given or received. Section 2(d) prohibits the manufacturer from making payment to any customer for merchandising services or facilities supplied by him unless such payment is available "on proportionally

[9] See *Great Atlantic & Pacific Tea Co.* v. *Federal Trade Commission*, 106 F (2d) 667 (1939). The Supreme Court refused to review the decision of the circuit court in 1940 and refused a rehearing later in the same year.

equal terms" to all customers who are in competition with him. The payment, usually in the form of a discount, must actually be a reasonable payment for the service rendered. Section 2(e) prohibits discrimination by the manufacturer in the services or facilities which he furnishes purchasers. They must also be furnished on "proportionally equal terms," i.e., in a nondiscriminatory manner.[10] Section 2(f) makes the buyer guilty if he knowingly induces or receives a discrimination in price which is prohibited in the Act.[11] One further important provision is that "the Federal Trade Commission may . . . fix and establish quantity limits . . . where it finds that available purchasers in greater quantities are so few as to render differentials on account thereof unjustly discriminatory or promotive of monopoly in any line of commerce." Rules of procedure for establishing quantity limits have been prepared and published by the Commission. Action may be taken by the Commission directly or upon petition by a manufacturer.[12]

Adequacy of Cost-Savings as a Defense. At the time the Robinson-Patman Act was passed in 1936 there were few concerns which had cost data to support price differentials. Most firms were utterly unprepared to furnish analyses of their distribution costs if called upon to do so. Since that time, and partly because of the Act, there has been considerable emphasis on such analyses, and cost data has been presented in many R-P cases. Both individual concerns and the Federal Trade Commission have presented the testimony of accountants to show that the price differentials challenged by the Commission could or could not be justified by cost-savings. In a recent case,[13] the accompanying table (Table 5) was presented in reference to discounts, price differences, and costs on canvas and waterproof rubber footwear.

These data were prepared by the Commission from the cost data presented by the defendant and testimony of accountants for the Commission pertaining thereto. The price differences of 0.0064, 0.0047, and another one not appearing in the table of 0.0092 per dol-

[10] See Chapter XVII, pp. 521–23, for a more comprehensive discussion of Sections 2(d) and (e).

[11] See Federal Trade Commission, In the Matter of the Curtiss Candy Company, a Corporation, Dockets 4556 and 4673 (consolidated), "Findings as to the Facts and Conclusions," and "Order to Cease and Desist," November 12, 1947; also "FTC Hits from Both Sides," *Business Week*, December 6, 1947, p. 62.

[12] See *Federal Register*, January 14, 1949, Title 16—Commercial Practices, Chapter I, Federal Trade Commission, Part 2—Rules of Practice, Procedure for Establishing Quantity Limits; also "How Big Can a Discount Be?" *Business Week*, October 8, 1949, p. 21, on the question of maximum discounts for tires under this authority.

[13] Federal Trade Commission, Docket No. 4972, In the Matter of United States Rubber Company, a Corporation, "Findings as to the Facts and Conclusion," and "Order to Cease and Desist," issued June 30, 1950. The United States Rubber Company subsequently filed a report of compliance indicating that it had changed its discount structure slightly in order to conform to the cease and desist order.

TABLE 5*

Between	Per Dollar of Gross Sales		
	Price Differences	Cost Differences	Excess of Price Differences over Cost Differences
CANVAS			
List price less 5% and list price less 13%	$0.0800	$0.0361	$0.0439
List price less 8% and list price less 13%	0.0500	0.0050	0.0450
WATERPROOF			
List price less 3% and list price less 13%	$0.1000	$0.0936	$0.0064
List price less 5% and list price less 13%	0.0800	0.0376	0.0424
List price less 8% and list price less 13%	0.0500	0.0020	0.0480
List price less 8% and list price less 13 and 5%	0.0935	0.0888	0.0047

* Source: Federal Trade Commission, Docket No. 4972, p. 7.

lar of gross sales were considered by the Commission to be *de minimus* and, therefore, would not warrant an order to cease and desist. The other amounts by which the Commission said that differences in prices were not justified by differences in costs were considered substantial and provoked an order to cease and desist.

This case, among others, shows the difficulties involved in making a cost defense for price differentials. Apparently, in this case, cost accountants for the Commission and those for the Company, while in substantial agreement in certain instances, were far apart in others. The fact of the matter is that distribution cost accounting has not been developed to a point where people agree either on methods of procedure or on findings. As a consequence, companies have infrequently been successful in justifying the price differentials of their discount systems before the Commission or the courts. There are notable exceptions, however, e.g., the Minneapolis-Honeywell case (F.T.C. Docket No. 4920 [1948]). Nevertheless, as one authority stated, there are extraordinary difficulties inherent in justifying any such discount system on a cost-savings basis.[14] Fortunately, perhaps, the chances of small companies being charged with discrimination seem remote. The funds appropriated by the Congress to the Commission are inadequate for meeting its responsibilities under the various acts which it is supposed to administer. Large companies, however, must watch their price policies with particular care in view of

[14] See Herbert F. Taggart, "The Standard Brands Case," *N.A.C.A. Bulletin*, Vol. XXI, No. 4, Sec. I (October 15, 1939); "New Life for the Robinson-Patman Act," *Michigan Business Review*, Vol. II, No. 2 (Bureau of Business Research, School of Business Administration, University of Michigan), p. 10. Also see William J. Warmack, *Price Discrimination and Due Allowance for Differences in Cost under the Robinson-Patman Act* (paper presented before Illinois Manufacturers' Cost Association, Chicago, March 2, 1948).

price legislation and, particularly, all aspects of their discount systems.

Recent Judicial Interpretations of the Robinson-Patman Act. Two recent cases are of particular importance as an indication of the attitude of the Supreme Court toward various provisions of the Act. These are *Federal Trade Commission* v. *Morton Salt Co.*[15] and *Standard Oil Company* v. *Federal Trade Commission.*[16] In the Morton Salt Co. case, the respondent was defending a discount schedule on its Blue Label brand of table salt as follows:

	Per Case
Less-than-carload purchases	$1.60
Carload purchases	1.50
5,000-case purchases in any consecutive 12 months	1.40
50,000-case purchases in any consecutive 12 months	1.35

On other brands similar schedules were used. The decision of a Circuit Court of Appeals in this case was favorable to the company, but its decision was reversed by the Supreme Court.[17]

The respondent contended that its standard quantity discounts, available to all on equal terms, were not discriminatory within the meaning of the Robinson-Patman Act. The Court stated that although, theoretically, the discounts were available to all, functionally they were not; that many small buyers were not able to qualify for any discount, whereas their competitors were able to do so. The opinion of the Court strongly implied, if not explicitly stated, that any discount could be presumed to be discriminatory but that a discount might be justified by savings in the costs of production, sale, or delivery or by meeting a competitor's equally low price in good faith. The Court held that the Company had failed to justify its price differentials on the basis of cost reductions.

In the opinion of the Court the following interpretations of the Act were also either made initially or reiterated:

1. That the burden of proof as to whether discounts are or are not in conformance with cost savings rests with the respondent, not with the Federal Trade Commission.
2. That, for an inference of competitive injury, the Commission need only prove that a seller charges higher prices for like goods to some buyers than to others who are in competition with them.
3. That the Commission is authorized by the Act to bar discriminatory prices if there is a *reasonable possibility* that different prices for like goods to competing buyers may injure competition.

The dissenting judges were not content with the doctrine of "reasonable possibility" and stated that, in their judgment, both the intent

[15] 334 U.S. 37, 68 S. Ct. 882, 92 L. Ed. 1196.

[16] 340 U.S. 231, 71 S. Ct. 240, 75 L. Ed. 205.

[17] For a discussion of this case, see S. Chesterfield Oppenheim, *Cases on Federal Anti-trust Laws, Trade Regulation* (St. Paul: West Publishing Co., 1950), p. 1039.

of the Congress and the previous interpretations of the Court would require the record to show a "reasonable probability" that the effect of different prices would lessen, injure, destroy or prevent competition. It was observed that this difference between "possibility" and "probability" is not an unimportant one.

The second case, that of *Standard Oil Company* v. *Federal Trade Commission*, deals with the question whether a price reduction made in good faith to meet an equally low price of a competitor is an absolute defense if an injury to competition may result from such price reduction. It should be recognized that this is a fundamental question in a free enterprise economy. In this case, the Federal Trade Commission challenged the right of the company to sell gasoline to four comparatively large "jobber" customers in Detroit at a lower price than it sold like gasoline to many comparatively small service-station customers in the same area. These jobbers, it should be noted, purchased both for resale and for sale in their own service stations. The Company's defenses were that (1) the sales involved were not in interstate commerce, and (2) its lower prices to the jobbers were justified because they were necessary to retain these jobbers as customers and were made in good faith to meet equally low prices of competitors. The Company further contended before the Commission that its price differential to the jobbers made only due allowance for differences in the cost of sale and delivery of gasoline to them. It did not, however, pursue this defense in the courts.

The Commission ordered the Company to cease and desist from making such a price differential. The Court of Appeals slightly modified the order and required its enforcement as modified. As the issue had not been decided by the Supreme Court previously, the petition of the Company for review was granted. There was agreement with the lower court that the sales were made in interstate commerce, but with the Company that, under the Act, the lower price to the jobbers was justified if it was made to retain them as customers and was made in good faith to meet an equally low price of a competitor. The Court did not pass on the fact as to whether the lower price was made in good faith to meet competitors' prices. That is for the Commission to decide. The Court agreed with the Commission that the statute requires the seller, who has knowingly discriminated in price, to show the existence of facts which would lead a reasonable and prudent person to believe that the granting of a lower price would, in fact, meet the equally low price of a competitor.

The reasoning of the Court in this case is well indicated in the quotation which follows:

> It is enough to say that Congress did not seek by the Robinson-Patman Act either to abolish competition or so radically to curtail it that a

seller would have no substantial right of self-defense against a price raid by a competitor. For example, if a large customer requests his seller to meet a temptingly lower price offered to him by one of his seller's competitors, the seller may well find it essential, as a matter of business survival, to meet that price rather than to lose the customer. It might be that this customer is the seller's only available market for the major portion of the seller's product, and that the loss of this customer would result in forcing a much higher unit cost and higher sales price upon the seller's other customers. There is nothing to show a Congressional purpose, in such a situation, to compel the seller to choose only between ruinously cutting its prices to all its customers to match the price offered to one, or refusing to meet the competition and then ruinously raising its prices to its remaining customers to cover increased unit costs. There is, on the other hand, plain language and established practice which permits a seller, through Section 2(b), to retain a customer by realistically meeting in good faith the price offered to that customer, without necessarily changing the seller's price to its other customers.[18]

Delivered Price Systems[19]

Another means of price variation from the point of view of "net realization" by the manufacturer is the practice of delivered prices. It is an important pricing practice which has been used in many industries, among them in steel, cement, metals, building products, furniture, and some food products. At times, it is an industry practice to which all companies conform; other times, it is individual company practice with little evidence of agreement in regard to it, either formal or informal. In the past few years, the practice has been under concerted attack by the Federal Trade Commission and the courts with considerable success. The legal situation will be considered presently, but, first, variations in the practice and the reasons for them will be discussed briefly.

Variations in Delivered Pricing. While the possible variations in delivered pricing systems are many, four principal ones are usually recognized: uniform prices, F.O.B. location of the buyer; the zone system; the single basing point system; and the multiple basing point system, including freight equalization plans when all production locations are used as basing points.

1. Uniform Prices, F.O.B. Location of Buyer.[20] This system, of-

[18] *Standard Oil Company* v. *Federal Trade Commission*, 340 U.S. at 249.

[19] It will be assumed, in the discussion which follows, that the reader is familiar with the discussions of basing-point systems of pricing in basic marketing texts such as Charles F. Phillips and Delbert J. Duncan, *Marketing: Principles and Methods* (Chicago: Richard D. Irwin, Inc., 1948), pp. 673–76, and Harold H. Maynard and Theodore N. Beckman, *Principles of Marketing* (4th ed.; New York: Ronald Press Co., 1946), pp. 605–10.

[20] In actual practice, plans for sharing transportation costs between buyers and sellers vary all the way from F.O.B. factory to uniform delivered prices. The seller may absorb all or any part of the transportation cost.

ten called the "postage-stamp" system, is the simplest and most direct way of attaining geographical equality of pricing—the seller quotes a single price and prepays all transportation charges. The same effect is secured by sales with transportation charges allowed, but the manufacturer thereby avoids administrative detail in dealing with transportation agencies. For convenience, some firms do not attempt to calculate actual rail freight to the buyer's location but use approximate allowances which average the freight charge to various points in the territory or zone. Then each buyer pays the freight and deducts the allowance to the point closest to his actual location.

2. Zone System. A variation of (1) is the zone system of delivered prices. Under it, zones are laid out and all buyers within each zone pay an identical delivered price. Depending upon the number of zones used, this system can approach the F.O.B. factory system of pricing or, on the contrary, the F.O.B. location of buyer system. Variations in transportation costs are recognized but only in part. Nevertheless, as the system usually is administered, the buyers over broad areas actually are charged the same delivered prices. On the peripheries of zones, the system works hardship because two buyers directly in competition with each other may pay different prices. A zone system is in use by many manufacturers of processed foods, building materials, furniture, chemicals, and consumer durables but not in all cases by all manufacturers of these items.

3. Single Basing Point System. This system, once termed in the steel industry as "Pittsburgh Plus," is a system in which all members of an industry price their products at a base price plus freight from a single point regardless of where the products originate geographically. The essential feature of the system is that producers located elsewhere than at the base point disregard their locations and do not quote delivered prices based upon freight costs from them but rather those from another point which by common consent is customarily used by all producers. The effect, from the buyers' point of view, is that they are quoted the same prices regardless of their location in reference to specific producers. All buyers do not pay the same price as under the system of uniform price F.O.B. buyer's location, but all buyers *at a particular location* pay the same price regardless of where the product originates.

4. Multiple Basing Point System. This system is a variation of the single basing point system. By common consent, a number of basing points are used. Delivered prices, including freight, are quoted by all producers from the basing point nearest the buyer. There may be as many basing points as there are producing plants—that is, each location of production may become a basing point. In this case, a customer would never pay more for transportation than the cost of shipping from the nearest producing unit, regardless of the production

location of the company from which he buys. Such systems of pricing are called freight equalization plans for the producers farther distant from the customer must "equalize" the freight charge if they are to compete with the producer nearest to the customer.

From the foregoing discussion, it will be recognized that delivered prices are of two types, that is (1) uniform prices at each geographical location of production, and (2) uniform prices which disregard location (*a*) entirely, as in uniform delivered prices throughout the national market, or (*b*) partially, as in zone pricing. The first type results from the use of basing point systems. Freight is added to a base price. It is never completely absorbed by any seller, for no one presumes to sell at the basic price if transportation costs are involved. The seller, located at some point other than the base point, meets the base price and adds the same freight costs as the seller located at the base point. In contrast, under the second type of delivered pricing, buyers at different locations are quoted identical prices. Transportation costs are disregarded either in part or entirely. The manufacturer acts as if his factory was located wherever his customers are located, in so far as pricing is concerned. Obviously, nearby customers are not given the benefit of their location. It is this type of delivered pricing with which we will be concerned in the discussion immediately following.[21]

Reasons for Uniform Delivered Prices. Uniform delivered prices which disregard location have, in most instances, been adopted by manufacturers simply because to them it seemed the best way to compete in the market. Basically, its use is an outgrowth of the geographical concentration of production and the relative dispersion of consumption. Through such concentration, production will take place far distant from many potential buyers. If prices, through transportation costs, are fully to reflect this distance and if the nature of the product is such that transportation costs are high, the delivered price near the site of production would be relatively low while price far afield would be high. For some products, consumers' durables, for instance, a low price near the location of production might soon result in a saturated market. Expansion necessitates more extensive cul-

[21] The criticism and defense of basing-point pricing, particularly the question of whether uniform delivered prices would evolve without conspiracy or collusion among sellers, and its economic consequences have been discussed at great length over the past few decades by professional economists and members of regulatory groups. It will not be reviewed in this volume. The subject is discussed briefly in basic marketing texts. While there are many references available, the reader is referred particular to George W. Stocking and Myron W. Watkins, *Monopoly and Free Enterprise* (New York: Twentieth Century Fund, 1951), chap. vii; Argument of Frederick H. Wood, Esq. of Counsel for the Respondent the Youngstown Sheet & Tube Company, before the Federal Trade Commission, Matter of Rigid Steel Conduit Association *et al.*, Docket No. 4452, May 12 and 13, 1943.

tivation of the market; but, without freight absorption, the prices necessarily charged might place a manufacturer's products beyond the reach of people with limited purchasing power who are located far distant from the production unit. If a manufacturer has competition, the breadth of his market will be limited to those areas in which freight costs are relatively low unless the location of the production unit is neutralized through delivered prices. Therefore, delivered prices make it possible for the manufacturer to cultivate far distant markets, compete in them on a reasonable basis, and, if successful, to expand his output and achieve the benefits of mass production. While other manufacturers who also sell on a delivered price basis will have access to the first manufacturer's "natural market," competition will be based upon general effectiveness as a business enterprise rather than in part upon the manufacturers' locations in reference to the market.

As a practical matter, a manufacturer may have no feasible alternative other than to quote delivered prices. It may be a long-established custom in a trade. To deviate from it would confuse buyers, and require them to perform functions in relation to transportation habitually performed by their supply sources. In other words, the practice of delivered pricing may be thought of as a service to the buyer—one which he expects and which, if not given, might injure competitive position unless a change was made by many companies simultaneously, either through voluntary action or compulsion from regulatory agencies.

Like any single price, a uniform delivered price is necessary if a resale price is to be maintained throughout the national market, and if price is to be advertised. Price differentials by zones lend themselves to price maintenance and price advertising, but less acceptably than a single price which is maintained throughout the national market.

Legality of Delivered Price Systems. During the 1940–49 decade, many significant decisions by the courts substantially changed the legal situation in reference to delivered prices. While there had been action over the previous two decades by the Federal Trade Commission against basing point systems as a means of eliminating competition in prices under Section 5 of the Federal Trade Commission Act, the systems had not been outlawed and thus were continued in many industries. While the situation is still unclear, it now appears that basing point systems used simultaneously by many producers are considered unlawful and that other forms of delivered pricing are at least suspect.

The Federal Trade Commission distinguishes clearly between delivered pricing systems which may violate Section 5 of the Federal Trade Commission Act and Section 2 of the Clayton Act, as amended by the Robinson-Patman Act. The question raised by geographic

pricing practice under the Federal Trade Commission Act is one of elimination of price competition among sellers. The offense is the old one of price-fixing. It is a question as to whether the practice of delivered prices is used as a price-fixing device and whether analysis provides evidence that there has been collusion among those using the system. In contrast, freight absorption by a single seller, not accompanied by similar action on the part of other producers, raises no problem under the Federal Trade Commission Act. It may raise one, nevertheless, under the Robinson-Patman Act, for the effect thereof may be substantially to lessen competition between buyers, as indicated by the Supreme Court decision in the Corn Products case shortly to be discussed.

For purposes of exposition, recent court decisions will be considered briefly as they apply to basing point systems, either single or multiple, which are used by many concerns in an industry; basing point systems used unilaterally when production by a company is at two or more points; delivered prices to zones; and uniform delivered prices from a single point by a particular manufacturer.

1. Basing Point Systems. Two recent legal decisions in reference to basing point systems are of particular importance: *Federal Trade Commission* v. *Cement Institute et al.*,[22] and *Triangle Conduit & Cable Co.* v. *Federal Trade Commission*,[23] both decided in 1948. In the first case, there were two charges against the respondents. The commission first charged that respondents entered into a nation-wide conspiracy to restrain competition in the pricing and sale of cement by use of a multiple basing point system in violation of Section 5 of the Federal Trade Commission Act. Secondly, it was charged that the delivered prices made pursuant to the combination alleged in the first charge resulted in variances of the mill net prices of each of the various companies and that such variances constituted an unlawful discrimination in price between customers of the same respondent, in violation of Section 2 of the Clayton Act, as amended by the Robinson-Patman Act. The Circuit Court failed to uphold the Commission, but the Supreme Court upheld the Commission on both charges. In reference to conspiracy in restraint of competition, the Court said that "there was abundant evidence as to common practices of these respondents and the others on the basis of which the Commission was justified in finding co-operative conduct among all to achieve delivered price uniformity."[24] "We think that adequate findings of combination were made and that the findings have support in the evidence."[25] "It is thus apparent that the order by its terms is directed

[22] 333 U.S. 683; 68 S. Ct. 793; 92 L. Ed. 1010 (1948).
[23] 168 F. (2d) 175 (1948).
[24] *Federal Trade Commission* v. *Cement Institute*, at 719 (see above, footnote 22).
[25] *Ibid.*, at 709.

solely at a concerted, not individual, activity on the part of the respondents."[26]

In reference to violation of the Robinson-Patman Act, the respondents held that the difference in their net returns from sales in different localities which resulted from use of the multiple basing point delivered price system were not price discriminations within the meaning of Section 2(a), Robinson-Patman Act. It was also stated that, if they were so held by the Court, they were justified by Section 2(b) as made in good faith to meet an equally low price of a competitor. However, in the opinion of the Court it was stated: "But this does not mean Section 2(b) permits a seller to use a sales system which constantly results in his getting more money for like goods from some customers than he does from others. We held to the contrary in the Staley case. There we said that the Act "speaks only of the sellers' lower price and of that only to the extent that it is made 'in good faith to meet an equally low price of a competitor.' The Act thus places emphasis on individual competitive situations, rather than upon a general system of competition."[27] The Court went on to state that the employment of a multiple basing point system was a practice by respondents rather than a good faith effort to meet individual competitive conditions. The Court concluded, "We hold that the Commission properly concluded that respondents' pricing system results in price discriminations. Its finding that the discriminations substantially lessened competition between respondents and that they were not made in good faith to meet a competitor's price are supported by the evidence."[28]

Triangle Conduit & Cable Co. et al. v. *Federal Trade Commission*, commonly known as the "Rigid Steel Conduit case," further strengthened the decision in the Cement Institute case. Again, the Commission made two charges against the manufacturers. The first charge alleged the continuance of a conspiracy for the purpose and with the effect of substantially restricting and suppressing actual and potential competition. The second charge did not rest upon an agreement or combination. Rather, it was alleged that each corporate petitioner and others violated Section 5 of the Federal Trade Commission Act "through their concurrent use of a formula method of making delivered price quotations with the knowledge that each did likewise, with the result that price competition between and among them was unreasonably restrained."[29] Not only was the position of the Commission, in reference to both charges, upheld, but also the Court

[26] *Ibid.*, at 728.
[27] *Ibid.*, at 725.
[28] *Ibid.*, at 725.
[29] *Triangle Conduit & Cable Co.* v. *Federal Trade Commission*, p. 176 (see above, footnote 23).

stated: "We think there was direct proof of the conspiracy, but whether there was or was not, in determining if such a finding is supported, it is not necessary that there be direct proof of such an agreement. Such an agreement may be shown by circumstantial evidence."[30]

As a result of this decision, it now appears that basing point systems will be held illegal whether or not conspiracy to suppress competition is proven. The Federal Trade Commission later stated: "The inference of collusion from the character of a geographic price structure becomes more persuasive as the structure itself becomes more complex, more rigid, and more inconsistent with the immediate competitive interests of various enterprises which follow it. Having explored the problem in a number of instances through legal prosecutions and economic investigations, the Commission now holds the view that sustained observance of single or multiple basing point systems which are complex and rigid is in itself substantial, even though not necessarily conclusive, evidence of collusion."[31]

2. Single Basing Point System Used Unilaterally. In the case of *Corn Products Refining Co.* v. *Federal Trade Commission*,[32] there was no question of concerted action to restrain competition and thus no charge of conspiracy. Nevertheless, the company was using a basing-point system inasmuch as glucose was sold from its Kansas City plant at the base price fixed at its Chicago plant plus freight charges from Chicago to the location of the buyer. The Commission charged that this practice discriminated among candy manufacturers who were in competition with each other, and thus was in violation of the Robinson-Patman Act. This method of pricing involved freight absorption on sales from Kansas City to points freightwise nearer Chicago than Kansas City and phantom freight on sales from Kansas City to points freightwise nearer Kansas City than Chicago. It resulted in varying net realized prices on Kansas City sales from $2.13 to $2.49 per hundredweight on actual sales on August 1, 1939.[33] Both the Circuit Court of Appeals and the Supreme Court upheld the Commission.

Another case, *Federal Trade Commission* v. *A. E. Staley Mfg. Co.*[34] was directly related to the Corn Products case, but there was no charge of conspiracy. The Staley company also manufactured glucose but only at one point—Decatur, Illinois. It also priced glucose on the Chicago base plus freight to destination—that is, it followed

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[30] *Ibid.*, p. 180.

[31] Federal Trade Commission, *Notice to the Staff: In re: Commission Policy Toward Geographic Pricing Practices* (October 12, 1948), pp. 3–4.

[32] 324 U.S. 726, 65 S. Ct. 961, 89 L. Ed. 1320 (1945).

[33] *Ibid.*, U.S., at 733.

[34] 324 U.S. 746, 65 S. Ct. 971, 89 L. Ed. 1338 (1945).

the lead of Corn Products. Staley's defense was that glucose was a standardized product and that, in order to compete with its larger rival, its prices were set "in good faith to meet an equally low price of a competitor." The Circuit Court failed to uphold the Commission but the Supreme Court reversed the lower court. In effect, the Supreme Court said (1) that a system which is clearly illegal in itself cannot be adopted legally for the sole reason that a competitor is also using the system (referring to Corn Products), (2) that Section 2(b) of the Robinson-Patman Act places emphasis on individual competitive situations, rather than upon a general system of competition, and (3) that Section 2(b) speaks only of the seller's lower price, not of a "higher" price—a practice followed by Staley when it charged its Decatur customers more than its Chicago customers—and then only if the lower price is made "in good faith to meet an equally low price of a competitor." In addition, the Court said: "We cannot say that a seller acts in good faith when it chooses to adopt such a clearly discriminatory pricing system, at least where it has never attempted to set up a nondiscriminatory system, giving to purchasers, who have the natural advantage of proximity to its plant, the price advantages they are entitled to expect over purchasers at a distance."[35] Thus it would appear that a basing point system used unilaterally, as in the Corn Products case when production is at more than one point, or the use of a basing point other than the site of production, as in the Staley case, when they result in restraint of competition among buyers, is illegal. It should be noted in passing that the pricing system used by both Corn Products and Staley probably eliminated price competition between them, but this was not considered in the case.

3. Delivered Prices to Zones. The question of the legality under Section 5 of the Federal Trade Commission Act of uniform delivered prices to identical zones used by a number of producers was considered in the *Fort Howard Paper Co.* v. *Federal Trade Commission*[36] case, one which was tried in the Seventh Circuit Court of Appeals but never reached the Supreme Court. Six crepe paper manufacturers jointly used a delivered pricing system in which prices were varied on bulk crepe paper as between three broad zones and packaged crepe paper between two zones into which the United States had been divided. Within each zone, delivered prices were identical to all buyers. The petitioner said that the only basis for action was the possible inference to be drawn from similarity of prices and trade practices and that this inference should be dispelled by a recognition that the product was a standardized one. It was argued that the prices of other sellers thus had to be met, and that these competitive prices

[35] *Ibid.*, U.S., at 757.

[36] *Fort Howard Paper Co.* v. *Federal Trade Commission* 156 F. (2d) 899 (1946).

were ascertained from customers and salesmen. Any agreement or collusion was denied.

The Circuit Court upheld the Commission. In the Court's opinion, the following statements were made: "It is the agreement to fix prices in concert that renders the conspiracy illegal. No formal agreement, however, is necessary to constitute an unlawful conspiracy. The essential combination or conspiracy may be found in a course of dealings or other circumstances as well as in an exchange of words."[37] "True, convenience of the use of zones is not to be denied, but mere convenience does not induce competitors approximately one-third of the nation's width apart to consider themselves concentric in the mapping of zones. One glance at the three zones mapped for bulk crepe will show the artificiality of the zone structure and intention to obviate any natural advantage of location for price determination."[38] "We think the artificiality and arbitrariness of the zone structure is so apparent it cannot withstand the inference of agreement."[39] The Federal Trade Commission later stated: "When a group of competing sellers have all chosen to establish an unnatural zone system with identical boundaries and identical price differentials, it is difficult to believe that this could be achieved and maintained without collusion."[40]

4. Uniform Delivered Prices by a Single Manufacturer—Total Market or by Zones. There appears to be no doubt at present of the legality of a uniform delivered price system by an individual seller, either under the Federal Trade Commission Act or the Robinson-Patman Act. The Commission has publicly stated that "where there is neither conscious parallel action which eliminates price competition nor monopolistic position maintained through unfair methods, a single enterprise is free to adopt any geographic pricing practice";[41] "The Commission has not challenged the independent maintenance of a uniform delivered price by an individual seller."[42] The Supreme Court in the Staley case stated: "But it does not follow that respondents may never absorb freight when their factory price plus actual freight is higher than their competitors' price, or that sellers, by so doing, may not maintain a uniform delivered price at all points of delivery, *for in that event there is no discrimination in price.*"[43]

On the use of a zoning system by an individual company, there may be more question of legality under the Robinson-Patman Act. Unless the zones are chosen with great care, buyers in different zones

[37] *Ibid.*, at 905.
[38] *Ibid.*, at 906.
[39] *Ibid.*, at 907.
[40] Federal Trade Commission, *Notice to the Staff, loc. cit.*, p. 4.
[41] *Ibid.*, p. 4.
[42] *Ibid.*, p. 6.
[43] 324 U.S., at 757.

may be in direct competition with each other. Moreover, there may be a price differential in the delivered prices charged the two buyers which cannot be justified under Section 2(a) of the Robinson-Patman Act—that is, on the basis of cost-savings differentials.

The question arises whether a uniform delivered price should be considered discriminatory. It has the appearance of fairness like any single price. Under the Robinson-Patman Act, no question can arise unless there is a price difference, but the question is not clarified as to the geographic point involved. It might be assumed that there was a price difference only if prices varied F.O.B. the seller's location. Then there would be price variations as between buyers' locations. Conversely, if it was assumed that price difference alluded to the cost of merchandise at the buyers' locations then there would be price variations at the seller's location. It is probable that the framers of the Clayton Act and the Robinson-Patman Amendment to it, were thinking in terms of price difference at the location of production. For instance, Section 2(a) of the Robinson-Patman Act seems to carry this implication. If the intent of the Congress was to forbid price variations at the point of production then differences in net realizations from sales to different customers through a delivered price system would be violative of the Act.

Although the Federal Trade Commission has recognized this dichotomy, legal decisions have not done so, or at least appear to be in conflict on this point. In the quotations from the Staley case previously cited, there is reference to the price advantages which nearby purchasers *are entitled to expect over purchasers at a distance.*[44] Yet, in the Staley case likewise, the court said that there is *no* discrimination in price through the maintenance of a uniform delivered price at all points of delivery. Obviously, in that event, nearby buyers are not getting the benefit of their location. This contradiction results from a lack of clarification as to whether price difference is to be interpreted as at the location of the seller or as between the locations of buyers. At present, it presumably means

[44] It might be argued cogently that buyers should not be given the benefit of their locations near manufacturing plants or other supply sources simply because the presence of these sources did not influence their selection of locations initially. If there was no such premeditation of price advantage on their part, uniform delivered prices to all buyers, wherever located, appears essentially less discriminatory than an F.O.B. factory pricing system. This argument, however, appears much more tenable for consumers' goods than for semimanufactured materials and parts which are used in further manufacture. It should also be pointed out that the advantage of location is a result of the buyer's and the manufacturer's proximity, each to the other. Perhaps there was no intent involved in bringing about this proximity, or, perhaps, there was intent on the part of the buyer or even on the part of the seller. The question might well be asked, in view of these circumstances, whether the advantage of location should go to the buyer, to the seller, or entirely to either party. At least the concept advanced in the Staley case that the buyer is entitled to the benefit of his location should be seriously questioned.

either, but further clarification, at least justification of the present practice, is needed.

Short-Range Price Variations

There are many reasons for short-range price variations and numerous ways in which they are put into effect. In most instances, they are procedures for using temporary price reductions to attain desired promotional ends. In others, notably premiums and promotional allowances, the offer may not be temporary, although the basic objective is the same. Again, in most cases, they can be offered or withdrawn with less effect upon customers or competitors than a change of the price itself. They are not an overt indication of price change, and thus their use may neither seriously disturb buyers nor provoke retaliatory price-cutting by competitors if the change is downward. At least, the semblance of a stable price level has been maintained while promotion with price variation as the weapon has been accomplished. Several of these indirect means for varying prices will be discussed briefly.

Direct Price Reductions—Limited Period Only. This practice may be followed to clear overly heavy inventories or dispose of remaining units before a model change. It is self-defeating if its only effect is to move sales forward which would otherwise be made later.

Discount Changes. Changes in discounts are less noticeable than changes in base prices. Some shifting about of discounts may be desirable as business conditions, and thus the relative scarcity of goods, change. Varying the discounts given avoids the necessity of reprinting price lists and catalogues in which prices are quoted.

Promotional Allowances—Services to Customers by Manufacturers. Although promotional allowances presumably are given for services rendered by the buyer to the seller, they are in fact, at least in part, price reductions without any particular justification other than that they are expected by the buyer. If the demand situation is such that promotional services are not particularly needed and if the seller is in a strong position vis'-à-vis' the buyer, such allowances may be withdrawn and later reinstated if conditions change. Conversely, offer or withdrawal of promotional services to customers by the manufacturer, while not so directly related to price, nevertheless will increase the net returns which he receives. These services can be varied at will as conditions make them more or less necessary.

Special Introductory Offers. In an attempt to introduce new products or to get older products into the hands of new dealers, the manufacturer may make price reductions of limited duration, perhaps if certain conditions are met in regard to display or other forms of promotion. These price concessions may be considered a legitimate

part of the introductory marketing expense and in lieu of other types of expenditure. While direct price concessions may be more dramatic and better received than other types of promotion, they are harder to abandon. They should not be used, therefore, without serious consideration of their probable consequences.

Combination Offers. Combination offers are temporary price reductions to attain any one of many purposes among them introduction of a new product, stimulus to sales of an older product, trial use by potential customers, and so on. To attract consumers, they must furnish "good values"—for instance, the one-cent sales or the offer of a new product together with an older one at a price only slightly higher than the one habitually paid for the latter. Usually, the manufacturer must have the full co-operation of distributors in order to handle combination offers acceptably. This can be attained by seeing to it that the distributor secures at least as great a dollar margin as he would have received if both products had been sold at their usual prices.

Free Deals.[45] Much will be said of free deals later in relation to planning the sales effort. Broadly conceived, they include combination offers and the use of premiums and coupons. They may be directed at wholesalers, retailers or consumers and the benefit from a particular deal may go to any one of these groups. Their most essential characteristic is that they introduce a certain flexibility into pricing where the manufacturer hesitates to vary the prices actually quoted.

Premiums and Coupons. Premiums are not so evidently price reductions as some of the other means mentioned, for they are usually of unrelated merchandise. In fact, they are a reward for continuous purchase. At times, the premiums are given without additional cost if evidence is furnished, perhaps through the accumulation of coupons, that a certain amount has been purchased. Or, customers may be given the opportunity to purchase an attractive premium at a bargain price when they have purchased a specified amount of the prescribed merchandise. The net effect is that the customer, in either instance, has indirectly secured lower prices on desired merchandise. Coupons which are distributed directly to consumers and entitle them upon presentation to free merchandise are not price reductions in the usual sense of the term. Rather they are promotional costs. The principal objective is to secure trial use of products.

Full-Line Arrangements. The manufacturer with a wide line of products often wishes distributors to carry a full line in order to attain balanced distribution of his products in the market. As an inducement he may offer additional discounts to distributors who will stock his

[45] See Chapter XIV, pp. 434–36; also Leverett S. Lyon, *The Economics of Free Deals* (Washington, D.C.: Brookings Institution, 1933).

complete line. Thus the strong products, through pricing arrangements, will help to promote those which have less consumer acceptance.

PRICING ARRANGEMENTS

A second group of problems of an administrative character are concerned with pricing arrangements. While many of them are made in day-to-day operations, only three of major importance will be discussed here, and these but briefly. They are notification of price changes, protection against price reduction, and price maintenance.

Notification of Price Changes

Companies need to work out carefully the procedures to be followed in changing prices. There are many parties concerned and, if the procedures are not administratively sound, their legitimate interests may be jeopardized. This applies to a company's field personnel, to distributors, and even at times to consumers. Usually it is desirable to make changes effective on a specified future date a short time in advance, and to state that the prices will hold until a certain date unless customers are specifically notified to the contrary. A short period between announcement and the time at which the new prices go into effect is needed in order to secure uniformity of action on prices on the part of a company's personnel. Advance notification is especially needed when selling operations are carried forward throughout the national market. Although communication is now rapid, it may take a few days to be assured that all field offices and salesmen know of the contemplated price change. If there appear to be good reasons for keeping knowledge of an impending price change away from customers, the advance notice to company personnel may be shortened, but some prior notification is usually necessary.

Customers have some equity in regard to the timing of price changes, particularly in reference to durable goods. Some merchandise must be carried in stock and when prices are changed, inventory values are affected favorably or otherwise. If retail prices are lowered and publicized, the distributor's margin is reduced unless he is protected pricewise on stocks on hand. It is probably unwise to inform consumers of anticipated price reductions because they are then likely to withhold normal purchases. Dealers, under such circumstances, will be doubly burdened in their attempts to reduce stocks before the new prices take effect.[46] Particularly in consumers' dura-

[46] See "How to Cut Prices," *Business Week*, July 16, 1949, pp. 31–34, for two case histories of methods used in price reduction.

bles, where the saving through a price reduction may be substantial, advance notice withholds sales. To play along with dealers and to protect them in so far as possible, especially exclusive agencies, is the part of wisdom.

If prices are to be increased, prior announcement may serve as a promotional weapon for, if distributors are not overloaded, they are likely to rush in and replenish inventories before the new price goes into effect. Such action may be desired by the manufacturer if he wishes, for some reason, to clean out stocks or to move sales forward at the expense of later periods. However, goods may move into consumption channels if consumers also are informed that prices are going up shortly, and part of the advantage is passed on to them by dealers. Thus the manufacturer should attempt to foresee just what effect an advance announcement of a price change is likely to have upon both immediate and future demand because, depending upon his situation at the moment, such an announcement may be either beneficial or harmful.

Protection against Price Reduction

When relations between the manufacturer and distributors are close, as, for instance, in an exclusive agency relationship, it may be considered sound policy to protect the distributor's margins both at the wholesale and retail levels. This will mean that the manufacturer, in some manner, will cushion the effect of any price reduction so that the distributor will not lose thereby. Action of this character is particularly necessary if it is not considered desirable for distributors to write up the value of merchandise in stock after a price increase, but in contrast, it is considered desirable for them to move merchandise into consumption channels quickly through promotion based upon anticipation of price increase. Logically, the distributor cannot be expected to take losses on inventories through price changes unless he takes gains. However, even though he does take appreciation through immediately marking up his merchandise with an announcement of a price increase, it is often considered good policy to retain his goodwill by making price adjustments on his inventory when prices are reduced.

Means and Objectives of Protection. The broad objective of protection against price reduction is to eliminate for the distributor the price risk involved in ownership of goods, fully or in part. The duration of such protection may be a few days or many months, depending on business practice in reference to the taking of orders and the rate of turnover on the merchandise while in distributor's hands. If it is customary in a trade to take orders in the winter months for spring delivery and the orders are priced, the buyer is taking a price risk for

some time before as well as after the goods are in his hands. Yet the seller may wish to have the assurance of such orders before the goods are manufactured. It is probably a sound generalization that the seller is usually more interested in assurance *of sale* than in assurance *of sale at a given price*. At least, under such circumstances, the seller is often willing, in order to secure advance orders, to insert a provision in the sales contract to the effect that a rebate will be made to the buyer if the seller reduces his prices on the goods contracted for before a certain date, perhaps the time of shipment or delivery. In effect, the goods are priced at that time. Orders can then be placed without fear on the part of the retailer that direct competitors will secure the same merchandise at a lower price later and thus secure a competitive advantage. With such assurance, buyers are more willing to place orders in advance and thus facilitate production scheduling. In times of uncertainty and a threat of business recession, such assurance is doubly important.[47] When guarantees against price decline of this character are carefully planned and soundly administered, they serve a useful purpose both for the manufacturer and the distributor.

Of course, the manufacturer may go further and protect the distributor while the goods are in his hands. Advance notice is one means of so doing, for the distributor can then curtail buying and do everything possible to clear stocks before the new prices come into force. Conversely, if the price is to be increased, they can stock up at the lower price and thus secure added profits, either through a per unit profit increase or a larger sales volume induced by passing on the price advantage to consumers. Another means of protection is to give rebates to the extent of the price reduction on unsold inventories in distributors' hands, perhaps as a credit against further purchases. Protection of this character is particularly needed when the manufacturer specifies the retail price—that is, the selling price as well as the buying price. He is then under greater obligation to protect the value of inventories, but, whether or not this condition prevails, such action may be amply rewarded by increased goodwill and a greater willingness on the part of distributors to co-operate in the future.

It should be recognized that protection of the distributor against price reduction is not an unmixed blessing so far as the manufacturer is concerned. While it may aid in promotion and production scheduling and create and cement friendly and co-operative relations, greater risk *is* assumed thereby. As far as risk of price change is concerned, the manufacturer in effect increases his inventory and reduces

[47] In 1949, prior to the war in Korea, surpluses were beginning to appear in some lines and, with them, an increase in price guarantees. See "Price Guarantees Come Back," *Business Week*, May 28, 1949, p. 46, and "Price Guarantees," *Business Week*, August 6, 1949, p. 62.

the inventories of his customers. Goods ordered but not delivered and goods in customers' hands, if their inventories are protected, *remain unsold* in the sense that there has been no *final* price determination. In normal times or in periods of inflation this risk may be negligible, but it may be substantial in periods of business recession. The manufacturer may be forced to make price reductions in order to stay in line with competitors—price reductions which he can ill afford to make in view of his price guarantee commitments to distributors. Meeting these commitments may result in a substantial loss of capital. Then, also, guarantees may induce an overestimation of needs by distributors, unwise buying, and heavier inventories than should be carried in view of sales volume because one of the brakes to overpurchasing has been removed. These possibilities suggest that, although inventories may be protected in the event of a price reduction, it should not be a matter of prior commitment; also that advance notice of price changes and the guarantee against price decline before delivery of merchandise are more easily justified than the protection of distributors' inventories subsequent to sale.[48]

Resale Price Maintenance[49]

The question arises whether a manufacturer should maintain a minimum or specific resale price on his products at the retail level. The decision is in his hands, for he is empowered to do so through the state fair-trade laws and the Miller-Tydings Act, an amendment to the Sherman Act. He is not forced to do so because this price legislation is permissive, not mandatory. He has the right, if he manufactures a branded good which is in competition with other goods, to set a resale price, either minimum or specific, and to force compliance in any one of the forty-five states which have fair-trade laws. All that the manufacturer needs to do is to arrange a contract with a single

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[48] There are also many possibilities of discriminatory treatment in pricing arrangements. Advance notice of a price change either upward or downward by a salesman to one dealer among a number who are directly competing may provide a considerable competitive advantage. Price guarantees and price adjustments on inventories may be used in a highly discriminatory manner. The situation is similar to that on free deals and allowances which was discussed in Leverett S. Lyon, *Free Deals and Allowances* (Washington, D.C.: Brookings Institution, 1933), chaps. vi and vii.

[49] The following references furnish a wealth of information on the history of resale price maintenance; its present status; the attitude of various interested parties toward it, including those of the Department of Justice and the Federal Trade Commission; and its effect on competition: *Report of the Federal Trade Commission on Resale Price Maintenance* (Washington, D.C.: U.S. Government Printing Office, 1945); Charles F. Phillips and Delbert J. Duncan, *Marketing: Principles and Methods* (Chicago: Richard D. Irwin, Inc., 1948), chap. xxix, pp. 677–85; E. T. Grether, "The Federal Trade Commission versus Resale Price Maintenance," *Journal of Marketing*, Vol. XII, No. 1 (June, 1947), pp. 1–13; E. T. Grether, *Price Control under Fair-Trade Legislation* (New York: Oxford University Press, 1939).

retailer to the effect that his product will be sold only at or no lower than a certain price and then notify other retailers of this action. Then the contract is binding upon them likewise, but the task of policing or forcing compliance is the responsibility of the manufacturer. Many manufacturers of drugs, toilet goods, cosmetics, liquors, sporting goods, and electrical appliances have established resale prices with varying degrees of success.

Although the Miller-Tydings Act was passed in 1937 and certain state fair-trade laws antedated it, there is still a paucity of information on the effect of resale price maintenance upon the positions of manufacturers. The recent Federal Trade Commission study, however, furnishes some information upon these manufacturers' prices, costs, volumes, investments, profits, and rates of return. A considerable body of information was collected with respect to sales to direct customers in selected cities for two consecutive periods of six months each, and to three such periods immediately following. Data are presented in the report for eight products, six of which are usually sold through drug stores, and two through grocery stores. While a very considerable amount of information is given for each of these eight products, the results are far from conclusive. The Commission stated: "The effects, if any, of minimum resale price maintenance upon the quantities sold by the manufacturers of price-maintained and competing non-price-maintained brands were largely obscured by the effects of other important causes affecting volume."[50] In reference to profits, the Commission said: "The influences determining these profits are too numerous and too difficult to evaluate for the relative size of the profits to be attributed merely to the relative extent to which resale price contracts were used."[51] Nor were results any more conclusive in regard to costs. Thus it would appear that the Commission's report, although informative, does not furnish the inductive evidence on the effects of resale price maintenance desired.

The attitude of the manufacturer toward resale price maintenance has been a relatively passive one from the beginning, although the Federal Trade Commission claims that "it was the manufacturers who were in the vanguard in advocating and using it on the ground that they had a proprietary interest in goods carrying their trade name or brand."[52] Nevertheless, the Commission goes on to say: "However, its enactment was urged almost entirely by a few well-organized dealer groups as a means of eliminating price competition both of dealers using the same methods of distribution and of dealers using new and different methods of distribution."[53] It is a safe conclusion that many

[50] Federal Trade Commission, *Resale Price Maintenance: Summary and Conclusion* (Washington, D.C., December 13, 1945), p. L.
[51] *Ibid.*, p. LI.
[52] *Ibid.*, p. XXVII.
[53] *Ibid.*, p. LIV.

manufacturers have used it and continue to do so because of the pressure exerted upon them by dealer groups. Manufacturers' attitudes toward the practice are revealed to some extent by a recent poll taken in California, the original fair-trade state, of some 700 manufacturers. Only 19 per cent distributed goods under resale price maintenance, 31 per cent thought that fair-trade actually impeded distribution, and only 40 per cent of those who used the practice thought that it improved relations with customers.[54]

There are arguments, nevertheless, for resale price maintenance from the point of view of the manufacturer. They are principally concerned with the preservation of goodwill for his products among both distributors and consumers. When a manufacturer's products are used as "leaders" by price-cutting dealers, they become less acceptable merchandise for "regular" dealers to handle. They may either discontinue handling such merchandise entirely, substitute other merchandise for it on which there is less price competition, or otherwise jeopardize the market position of the manufacturer. They may also put pressure on the manufacturer for lower prices *to them*, thereby enabling them to compete more successfully with the price-cutting dealers and still secure their normal profit margins. It has also been argued that drastic price-cutting on a branded article in some stores lowers its prestige among consumers and leads them to believe that the brand is of lower quality than competing brands on which there is less price competition, perhaps to believe that it is actually not worth the price which they have customarily paid for it.

While the foregoing arguments for price maintenance may be sufficiently cogent to justify the practice, particularly if supported by strong pressure from distributor associations, most manufacturers are lukewarm to price maintenance. If their products have a large measure of consumer acceptance, such as leading brands of cigarettes, distributors will carry them whether or not price is maintained. Chain stores are so important in the grocery trade that price maintenance has made little headway. Moreover, there have been very few instances in which there has been incontrovertible proof that manufacturers have been injured by price-cutting activities of distributors. It is doubtful if the prestige of brands has suffered by price-cutting if they are of high quality and the quality has been maintained. While some customers undoubtedly have been lost in certain instances, sales through them may have been in negligible amount and compensated for by greater sales in other outlets as cut prices are an effective means of stimulating sales. It should be recognized likewise that price maintenance brings with it administrative problems which are costly and difficult to solve. The policing task is placed upon the manufacturer, not upon government agencies or distributors, although dealer organ-

[54] "Poll on Fair-Trade," *Business Week*, May 6, 1950, p. 88.

izations have in part assumed the responsibility. In fact, it might be argued that price maintenance not well administered is more productive of dealer illwill than a failure to maintain prices initially.

In late 1950, the lines appeared to be forming for a major test of resale price maintenance. R. H. Macy & Co. cut prices drastically on many price-maintained electrical appliances, apparently because their manufacturers had not been successful in enforcing adherence to the established prices on the part of small, cut-rate retailers.[55] Earlier, in June, 1950, General Electric Company took some of its major appliances off the fair-trade list in the New York City area, presumably because the major appliance industry did not follow fair-trade in New York.[56] Among many groups, in addition to some manufacturers and large distributors, there is dissatisfaction with price maintenance. Both the Department of Justice and the Federal Trade Commission are critical of it because it lessens competition at the retail level. In fact, the Commission concluded that it "is economically unsound and undesirable in a competitive economy."[57] Therefore, it is likely that resale price maintenance will continue to be debated vigorously and that some changes in its legal status may occur during the next few years.[58]

REVIEW AND DISCUSSION QUESTIONS

1. "The elimination of all price discrimination by sellers is neither possible nor socially desirable." Comment.
2. Define "variable," "nonvariable," and "single-price policies." Would

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[55] "Daring the Fair-Trade Laws," *Business Week*, March 8, 1950, p. 100.

[56] "Fair Trade Battle Lines Form," *Business Week*, July 15, 1950, p. 41.

[57] Federal Trade Commission, *Resale Price Maintenance: Summary and Conclusion* (Washington, D.C., December 13, 1945), p. LXIV.

[58] On May 21, 1951, while this manuscript was in page proof, the Supreme Court handed down a decision in the case of *Schwegmann Brothers et al.* vs. *Calvert Distillers Corporation.* Schwegmann Brothers, a nonsigner, had been selling the products of Calvert Distillers Corporation and Seagram Distillers Corporation below the prices which the companies had stipulated in contracts with Louisiana retailers under the Louisiana fair-trade law. After adverse decisions in two lower courts, Schwegmann Brothers appealed the case to the Supreme Court and won a favorable decision on a six-to-three verdict. The Court held that the Miller-Tydings Act did not permit enforcement of minimum prices against nonsigners on goods in interstate commerce. The majority opinion stated that the Miller-Tydings Act exempted from the provisions of the Sherman Act only contracts or agreements prescribing minimum prices for resale; that the sponsor, Senator Tydings, never suggested that the Act would affect anyone but the retailer who signed the contract; that the words used in the Act connote a voluntary scheme; and that coercive measures against nonsigners were never envisaged. Since the opinion was handed down, many nonsigners have drastically reduced prices on price-maintained merchandise. It is still too early, however, to appraise the situation for the future. The question of whether goods produced and sold under certain conditions are or are not in interstate commerce must be answered. For the present at least, resale price maintenance has been dealt a body blow from which it may or may not recover. (See 341 U.S.—, 71 S. Ct.—, 95 L. Ed.—, all (1951).)

you contend that a single-price policy is likely to be nondiscriminatory?

3. What are the advantages of leasing equipment, as an alternative to outright sale? Why may it be desirable for a company to offer the alternative of outright purchase or leasing to potential users?
4. Is the problem of determining a lease rental essentially different from the problem of determining a price for outright sale?
5. Compare the cumulative and noncumulative types of quantity discounts from the point of view of inducement to exclusive dealing, maintenance of quality of merchandise, advantage given to small or to large purchasers, full-line forcing, and the reduction which will probably be effected in distribution costs.
6. Comment on the assertion that cumulative quantity discounts cannot be justified under the provisions of the Robinson-Patman Act.
7. What were the weaknesses of the original Section 2 of the Clayton Act in reference to curbing price discrimination? Were these weaknesses overcome in the Robinson-Patman Amendment to the Act?
8. What are the principal provisions of the Robinson-Patman Act?
9. Distinguish clearly between delivered pricing systems which may violate (1) Section 5 of the Federal Trade Commission Act and (2) Section 2 of the Clayton Act as amended by the Robinson-Patman Act.
10. What is the significance of the decision of the Supreme Court in *Standard Oil Company* v. *Federal Trade Commission* (340 U.S. 231)?
11. What, apparently, is the present position of the Federal Trade Commission in regard to the legality of various systems of delivered pricing? To what extent have recent decisions of the Supreme Court upheld the views of the Commission? Cite particular cases.
12. It is apparently assumed in antitrust legislation that "at factory" pricing is necessarily nondiscriminatory pricing. Do you agree?
13. Comment on the following quotation:

    "If you carry the spirit of this law [Robinson-Patman Act] through to its ultimate implications, it means that you don't have any competition. It is essentially an attack on competition; but it's taken us a dozen years or more to realize these implications of the Robinson-Patman Act, and to see that the Robinson-Patman Act is really *an attack on the Sherman Act*. The Robinson-Patman Act is essentially aimed at preventing any kind of vigorous price competition; it calls for *soft* competition, not *hard* competition" (Malcolm P. McNair, "Competition and the Law," *Michigan Business Review*, Vol. III, No. 2 [March, 1951], p. 4).
14. Members of regulatory bodies, economists, and some business executives are becoming increasingly critical of the economic consequences of legalized resale price maintenance. State, as simply as possible, the case for and against this practice.
15. The Kelley Island Lime and Transport Co. developed an acoustical tile with the following characteristics: (1) excellent acoustical properties;

(2) paintable with oil paint without reducing its acoustical absorption powers; (3) incombustible and fire-retardant; (4) high absorption coefficient. Both factory and field tests were made, and the product was determined to be effective in use. The product is called "Kilnoise acoustical tile." The most similar competitive product is Acoustone, a product of the United States Gypsum Company. The Kilnoise tile is $^{13}/_{16}$ inch thick and sells for 22 to 23 cents per square foot. Owens-Corning Fiberglas Corporation markets a $^{3}/_{4}$ inch tile made of Fiberglas which sells in the price range of Acoustone. In addition it sells a $^{1}/_{2}$ inch tile of the same material which is priced at 15 cents. Fiberglas tile is flexible, where Kilnoise and Acoustone are not. Celotex makes an incombustible mineral tile in two sizes, one which sells for approximately 26 cents and the other—$^{1}/_{2}$ inch in size—for 20 cents. Celotex also makes a perforated tile out of cane fiber which sells at 10 cents, but this tile is neither incombustible nor fire-retardant. When treated with fire-retardant paint, this tile sells for 14 cents.

The Company is also initiating production of a tile of $^{11}/_{16}$ inch thickness to compete with the cheaper tiles of competitors. The reduced thickness reduces the ability of the tile to absorb sound, although it has the same appearance. (Adapted from Jacob O. Kamm, "The Development and Pricing of a New Product," *Journal of Marketing*, Vol. XV, No. 3 [January, 1951], pp. 345–46.)

What considerations should govern in the pricing of these products? What specific prices would you suggest for each?

16. A recent pricing study on a new consumer product will illustrate one method available for determining proper selling prices. Thirteen competitive products, representing an even distribution throughout the new product's probable price range, were compared with the new product in field interviews with consumers. During the interviews, the respondent, who did not know any of the prices, was first asked to separate the exhibits into a high- and a low-priced group. Next, the respondent was given the group in which the new product had been placed and was asked to divide this group into two more groups.

The final group into which the new product had been placed was then arranged from the lowest to the highest price, and the respondent was asked to name the upper and the lower price limits for the group. Only at this point was the new product singled out and the consumer asked to put a price on it. The respondent was then asked to name the favorable features that had caused him to place the product in that final category and any unfavorable features that prevented the product from being placed in a higher category.

The tentative selling price for the new product was established at the level selected by the greatest number of respondents. This price was automatically adjusted to competitors' prices, since their products were compared with the new product in the study. Finally, the tentative selling price was reconsidered to insure that the gross margin of the product was sufficient to return the greatest long-term profits.

On what bases would you evaluate a pricing research study of this

character? Also, what additional information would be required for the determination of a specific price for the new product?

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PART V

PLANNING THE SALES EFFORT

Chapter XII

PLANNING THE SALES ORGANIZATION

After decisions have been made on product, order, and location of market development and on pricing, the next step in the marketing process is planning the sales effort in all of its various phases. First, there is the task of planning the sales organization. This subject, if construed broadly, includes planning for all levels of distribution, or, more narrowly, planning only the manufacturer's organization. Broadly construed, it includes: selection of a channel or channels of distribution; departmentalization in the home office, and perhaps in subsidiaries and field offices; co-ordination between field offices and between these offices and the home office; and co-ordination between home office departments. Second, there is the task of planning the sales effort per se, as distinguished from the organization through which it is accomplished. Decisions must be reached on the feasibility of engaging in various types of marketing activity, on sales expenditures, and on the conduct of sales programs and campaigns. Attention will be given to each of the subjects mentioned in the chapters which follow; likewise to product warranties and service, which are closely associated subjects.

THE NATURE OF ORGANIZATION[1]

Organization has been defined as a means to more effective con-

[1] It will be assumed in the discussion which follows that the reader has taken a course in business management or is familiar with it through experience and that this training and/or experience includes something on the nature of business organization. Therefore, the discussion of the need for organization, its objectives, and of

certed endeavor.[2] It deals exclusively with individuals who are working together and their relations one with another. To organize means to bring these individuals into systematic connection and co-operation as the parts of a whole in order to accomplish certain tasks. This co-operation may be forced, as in slave or military organizations, or it may be voluntary, as in business or other social groups. In either case, however, the organization is the means to an end rather than an end in itself. Such is the fact of the matter, although people frequently become so interested in organization as such that its functional aspects assume a secondary position.

An organization, it should be recognized, is not a living organism. It does not have the power within itself to make necessary adjustments to changed conditions without conscious effort. Rather the changes must be made deliberately. The needed changes will come only through conscious control exercised by executive officers. Only through a constant awareness of the changes which are taking place in the selling task, the stresses and strains in the organization which are always present to some degree, and of the extent of an organization's effectiveness can management plan and effectuate organizational changes when they are needed.

Organization proceeds through the mechanism of specialization. If all of the various activities of a concern pertaining to sales management could be handled by one individual only, obviously there would be no organization of personnel. However, when a business grows and many men are needed to do the necessary work, there must be a breakdown of the whole task into manageable units and assignment of particular tasks to each man. This breakdown is often called "functionalization," and the assignments are called "delegation" of authority and responsibility. Whether there is effective organization depends very largely upon whether the total selling task is broken down effectively, i.e., whether the various groups of subtasks are internally consistent. As far as the size of the concern will permit, specialization should be sought; at least there should be a reasonable grouping of activities in individual assignments. This is a question of grouping tasks on the basis of similarity in type. Inasmuch as all men are working toward common objectives, although on particular assignments, they

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organizational principles will be brief in this text but sufficient, perhaps, to bring back to the mind of the reader certain ideas essential to our discussion of the sales organization. For discussion of organization as applied to business see Elmore Peterson, and E. Grosvenor Plowman, *Business Organization and Management* (rev. ed.; Chicago: Richard D. Irwin, Inc., 1948); Robert Teviot Livingston, *The Engineering of Organization and Management* (New York: McGraw-Hill Book Company, Inc., 1949). For a thorough discussion of the theory of organization see Alvin Brown, *Organization of Industry* (New York: Prentice-Hall, Inc., 1947).

[2] *Ibid.*, p. 1.

are *mutually interdependent*, and means for co-ordination must be provided for them. In other words, there must be the proper relationships between the members of the group, both on the same level and with superiors and subordinates, if there is to be effective operation.

The common expression that a company has a good organization connotes at least two things: first, that the organization is sound structurally, that the over-all selling task has been broken down well, and that authority and responsibility have been delegated wisely; and second, that the people in the organization work together well and thus productively. In fact, the second consideration is much more likely to be uppermost in mind than the first. It suggests that the organization is united, that it is hard-hitting, that morale is usually high, and that there is mutual respect among the individuals who share the major responsibilities. Problems arise in each of these two areas. The first may be designated as problems of structure; the second, problems of relationships between staff members. Of course they are closely interrelated, for if the structure of an organization is not reasonably sound—for instance, if the responsibility and authority pertaining to each position is not clear—the problems of human interrelationships become increasingly involved and ofttimes almost incapable of solution.

SOME PROBLEMS OF ORGANIZATION

Division of Responsibility and Authority

When people work together, some division of responsibility and authority is almost inevitable. As additional people are employed, they are given something to do, perhaps some part of the work of some other person who was overburdened. Therefore, it is not a question of division of responsibility so much as whether that division will be made thoughtfully and in advance of assignment. The problem is one of providing for all essential tasks when building or revising the organizational structure, of classifying these tasks, and then of assigning them to personnel in such a way that there will be clearcut lines of responsibility. The reasons for doing this work with care are that there will then be less likelihood that certain tasks will not be performed or not given the proper attention, that certain tasks will "fall between" people or departments, and that questions of jurisdiction will arise. If there is some doubt as to who is expected to do certain tasks, they may not get done, work may be duplicated, or, perhaps, jurisdictional squabbles will arise with their possible aftermath of ill will.

Classification of tasks should be made on the basis of their essential

similarity. There is always the question as to how fine the classification need be in terms of later assignments. In most situations, there cannot be complete specialization, nor would it probably be advisable in sales work. People are likely to be assigned a number of tasks, but the tasks should be of a similar or related nature. Experience in handling one then contributes to the performance of the others. Tasks can be so grouped for assignments that they use the same skills and aptitudes, that they fall within the range of interest of one individual. When tasks are so grouped, selection of personnel is facilitated for, in a very real sense, less is expected of each individual than when the range of duties is broader.

Delegation of Responsibility and Authority

It is a recognized principle of organization that responsibility should be accompanied with the requisite authority. If any individual is to be held responsible for doing certain things, it is only common sense that he should be given authority sufficient to enable him to discharge his responsibilities. This may necessitate authority over other people who participate in a task, authority to make contacts whether within the company or outside, or authority to make expenditures of company funds. There is nothing more destructive of morale than to have responsibility and not be able to command the facilities for doing the assigned tasks effectively.

One ever-present problem is to make lines of authority and responsibility clear to and understood by all interested parties. When responsibility is delegated, it should be made abundantly clear from whom the delegation comes and, parenthetically, to whom a person is responsible. Other than under unusual circumstances, it is not wise for a person to be responsible to more than one person. Conflicts are likely to arise if a person has two bosses to whom he must report and whom he must satisfy. Often this situation arises when there are parallel functional departments in the home office and in branch offices. Although there may be a clear line of authority extending from a vice-president in charge of sales through the sales manager to branch managers and on to salesmen, functional personnel in branch offices, such as those in product service, may try to give orders directly to salesmen rather than through the correct channels. Or if a branch sales office is selling a number of products from a number of affiliated manufacturing units, each of which has its own sales manager, the branch manager may be in the unenviable position of attempting to please a number of sales managers.

When responsibility has been delegated, the information should become common knowledge throughout an organization. Within

reasonable limits, each person should be apprised of the areas of responsibility assumed by others. This may be done through job descriptions, organization charts, interoffice memoranda, or some other such means.

Co-ordination

Problems of co-ordination inevitably arise when people work together to attain common objectives. When they work at different locations, as in marketing, the problem is accentuated, for communication is more difficult. Human interrelationships abound and increase more than proportionately as tasks are subdivided and specialized assignments are made. Failure of performance at one spot in the organization affects performance elsewhere. For instance, if one person fails to meet his deadlines, other people who carry on from there are inconvenienced, for their tasks are made more difficult thereby. This is particularly noticeable in the planning and execution of sales programs and campaigns.

There are problems of interdepartmental co-ordination as well as departmental; for instance, between departments of finance, sales, production, industrial relations, etc. People in sales have a legitimate interest in credits and collections and in product development, even though the primary responsibilities for them may be in finance and production departments. There must be co-ordination for two reasons: (1) because decisions made in a particular department may make it more difficult to assume responsibilities elsewhere, and (2) because people in certain departments have something to contribute to the formulation of policy and managerial decisions elsewhere. Through co-ordination, people in sales departments can protect their interests in relation to credit and product development. At least they can make their influence felt and, if dissatisfied with decisions, they can go to higher authority for a review and possible revision of such decisions. In the case of product development, people in sales have something unique to contribute; that is, a knowledge of consumers' attitudes toward a company's products and of consumers' desires in reference to changes in design.

Intradepartmental co-ordination is even more necessary, perhaps, for presumably all personnel are working on the same or similar tasks. The problem is simplified, however, by the fact of proximity in location and daily contact. In small departments, little formal co-ordination is required; but in large departments frequent staff meetings and other forms of co-ordination and planned communication may be needed. Unity of purpose and improved morale are secured if, through these attempts to achieve co-ordination, all personnel can

see the main directions of the company's efforts and their own particular contributions to the end result.

Span of Supervision and Control

The principal factor limiting the size of organizations is that of securing co-ordination between the various specialized units. As the activities to be supervised become more and more numerous and the personnel employed greater in number, the levels of supervision and control must increase, for one individual can co-ordinate the work of only a limited number of subordinates. While the number will vary, according to the difficulty of the work which subordinates do and the level of their competence, the maximum number which can be effectively supervised is not greater than ten and, in most situations, five or six place a sufficient burden on any executive. He must be familiar with the problems under consideration by each person who reports to him directly and be able to advise as to methods of approach and possible solutions. He must consider the activities of each subordinate in reference to that which is being done by others under his supervision, otherwise co-ordination in planning and execution could not take place. Therefore, because of human limitations, there must be successive levels of supervision and control in large organizations. But as these multiply effective co-ordination and communication become more and more difficult. While there are many advantages of size in business enterprises, difficulties of co-ordination are an important limiting factor.

This problem is often approached as one of centralization versus decentralization. Initially, this was a question of the extent of responsibility and authority which would be given to field sales organizational units such as branch offices. Some executives favored a large measure of decentralization whereby the branch offices operated almost as autonomous units with little direction or supervision from the home office. Benefits were expected from adaptation of policies and procedures to specific territorial conditions and from the personal initiative evoked by greater independence in action. Later the benefits of decentralization were in greater doubt and the difficulties proceeding from inexpert attention to many tasks were more apparent. There was more recognition of the advantages of standardization in practice along lines suggested by well-trained and able personnel in functional departments at the home office. Better communication was also a factor, for the delays in personal or written contact, and thus in action at the branch offices based upon decisions at the home office, were reduced. Decentralization at an earlier date, at least in part, was therefore a reflection of ineffectiveness at the home office and poor com-

munication rather than one of sheer size of the business organization with its resultant co-ordination difficulties.

Decentralization now is more an outgrowth of the difficulties of co-ordination. Such concerns as General Motors Corporation and the Standard Oil Company of New Jersey have delegated a large measure of authority to subsidiaries, each of which may have its own sales department, for instance, and directly compete with other members of the group. An example is furnished by the competition between those concerns which manufacture Buicks, Pontiacs, Olds, and Chevrolets. The Buick Motor Company is probably considered as an autonomous unit by most people, although its connection with General Motors is generally known. Undoubtedly the Buick management is supervised and controlled in some measure by General Motors executives. The problem is one of finding the proper balance between delegation of authority and continuing supervision and control.

Eugene Holman, President, Standard Oil Company of New Jersey, made the following statement:

> We have seen, in this country, that the individual—when not hedged in and hampered, but given opportunity to learn and to grow—represents a tremendous creative force. It has been demonstrated that freedom and opportunity for the individual not only are morally right but pay magnificently, and not only in material terms but in spiritual values as well.
>
> It is the growing realization of this truth . . . that accounts for the movement, in American corporations, toward decentralization through delegation of authority. This is not something that has happened in the past few months or past few years; it has been going on for a long time. . . .
>
> Large companies, especially, are moving toward decentralization as a matter of common sense. Even if the head of a large business wanted to run the organization in a dictatorial way, he would find it impossible to do so. He might give all the appearance of success for a time, *but the mere scope of the enterprise, the amount of knowledge required for proper administration, would mean that the effort was doomed to failure.* . . .
>
> We operate, therefore, as a kind of family of autonomous affiliates, each of which is responsible for its own activities and has very wide latitude for the exercise of judgment and initiative. [*Italics added.*][3]

Organizational Stability and Flexibility

The problem of stability in organization is one of maintaining a loyal group of staff members who work together effectively. While this effectiveness is in part a question of tenure, this question in turn

[3] An address at Rensselaer Polytechnic Institute, Troy, New York, October 14, 1949.

is one of maintaining those conditions which provide satisfaction and opportunity on the job. Promotion from within contributes to stability, as well as effectiveness in training, so that new employees become oriented to their tasks and thus productive quickly. Organizational stability is an outgrowth likewise of an effective organizational structure. If the over-all selling task is broken down in a reasonable manner, if the lines of authority and responsibility are clear, disruptive influences, such as expansion and retraction in activities and changes in personnel, can be handled with less difficulty.

Changes in organizational structure from time to time are necessary and should not be avoided. An organization is a reflection of the marketing task, and if the task changes materially, so should the organization. If investigation indicates the need for a change, it should be made with little hesitancy, for the old organizational structure has probably become an inefficient instrument in view of new demands upon it. One of the most common errors of top management is to become too conservative in regard to organizational changes. Sometimes the need for changes is not recognized. At other times an automatic adjustment to new conditions is somehow expected but usually fails to take place. There is a personnel problem involved because a change in organization means a disturbance of existing relationships between members of the group. Responsibilities and authority are shifted around among people, perhaps to the disadvantage of some, the advantage of others. Because of this fact, changes should not be made capriciously or without proper investigation. This suggests the desirability of periodical review to determine whether the company's organization, all things considered, is doing an effective job and, if not, whether the reasons for failure are those of structure, ineffective co-ordination, poor morale, or incompetent personnel.

Pronounced organizational changes in peace times are likely to be the outgrowth of trends which have substantially affected a company's business. For instance, if sales to one type of business—let us say to the petroleum industry—have shown a marked upward trend, and there is good reason to believe that the trend will continue, it may be wise to set up an organizational unit to handle sales to this industry. This would involve departmentalization on an industry or customer basis. Recent changes were made as a result of World War II. For instance, the Carboloy Company, Inc., of Detroit, makers of hard metal used as inserts in cutting tools, embarked on a distributor program in 1944 as an approach to more rational postwar distribution.[4] Field work was broken down into four categories: (1) distributor contact sales to supply houses and jobbers, (2) die sales to industrial

[4] K. R. Beardslee, "Revitalizing a Sales Force to Meet a Competitive Market," *Sharpening Sales Effort through Market Research* (Marketing Series, No. 75) (New York: American Management Association, 1949), pp. 9–14.

users and die manufacturing agents, (3) direct sales to national accounts, (4) service engineers. The entire sales force was realigned on the basis of new assignments and, as far as possible, each man was to specialize in one type of sales work.

Development and Maintenance of Morale

Morale is a compound of many things, some of which are imponderable and exceedingly illusive but nevertheless important. It may be stated, for instance, that people like to work for a certain company, that there is a great deal of loyalty to the company and its executives. In certain cases, people may actually work for some companies at less compensation than they could secure elsewhere just because the environment in which they work is highly congenial. One of the large packing companies has the reputation, an enviable one, of being an excellent place to work. There is an *esprit de corp* in the organization which even an occasional visitor feels almost instinctively. In part it may be an outgrowth of the attitude of executives toward people of lower rank. Many of the executive offices are around the sides of a large room in which many people work. There are evidences of a certain camaraderie whenever these executives walk through the large office. Apparently it is not a product of planned effort, but rather a natural expression of the type of people who work for the company.

While morale throughout an organization is not something which can easily be achieved, it can be sought for and, perhaps, attained over a relatively long period. Its attainment and maintenance, once achieved, constitute an important problem and often a most difficult one. Basically it is a question of personnel policy—one which takes full consideration of the legitimate desires and aspirations of staff employees. Facilities for social events and sports may be provided. Merit awards for outstanding work and for long tenure are helpful. With particular reference to sales organizations, conventions and other group conferences, sales contests, sales quotas for incentive purposes, incentive compensation, and retraining of men who have been with the company for some time are all productive of high morale. These matters will be discussed in some detail later in a chapter on stimulation of the sales force.[5]

REASONS FOR VARIATION IN SALES ORGANIZATIONS

Sales organizations are noted for a lack of uniformity. However, they should differ substantially as they are designed to do unlike things. They are an expression of the selling task, and this differs with

[5] See Chapter XXIV.

a host of factors—among them, the nature of the product, the channels of distribution used, the extent of the market covered, and the type of customers to whom the product is sold. To use a manifest example, the sales organization of a company which sells sewing machines directly to consumers through its own retail outlets would differ markedly from that of a company which sells high-value industrial equipment to a single industry in which there are a limited number of concerns.

Sales organizations are likewise an expression of subjective factors, such as differing personalities. If an organization has been dominated through many years by one individual who has attempted to keep all control in his own hands, it is one sort of organization. It is quite another if the leading individual has delegated responsibility to others easily and in line with accepted practice. Many concerns in this country have grown very rapidly, and changes in organization have often been an expression of the capabilities of the individuals who were associated with the company and available for duty. Moreover, this is not entirely unreasonable, for it may be less difficult to change an organization in minor details than to find just the right individual to fit into a particular job.

Sales organizations differ also because of a dissimilarity of ideas in regard to what sales management should comprehend. Thus sales management as practiced is not the same in all companies and, furthermore, in any individual instance, it may differ widely from a theoretical conception of its boundaries. If there is no general agreement as to the activities for which the sales department should be responsible, obviously the departments themselves will be dissimilar.

Higher executives *assign responsibilities to departments* just as sales executives make assignments to subdepartments and individuals. Planning the product may be assigned to production departments rather than to sales. Credit and collections may be assigned to sales rather than to a finance department. In view of all the circumstances present, variation in assignments between departments in different companies may be entirely reasonable. These factors are all productive of variation in sales organizations.

SELECTION OF CHANNELS OF DISTRIBUTION

There are a number of basic, interrelated questions involved in the selection of channels of distribution: among them (1) how far the manufacturer should extend his own organizational structure toward the consumer of his products or, otherwise stated, how much he should depend upon the distributive organizations created by others and available for his use; (2) what types of distributors, perhaps at

both the wholesale and retail level, would handle his product most effectively; (3) how many distributors should be selected at each level; and (4) how much control he should attempt to exercise over the policies followed and the procedures used by these distributors. The first of these questions alludes to the familiar problem of the extent of directness in distribution, the second to the problem of choice within distributive types, the third to the problem of selectivity, and the fourth to the problem of control over legally independent enterprises such as those of wholesalers and retailers.

The over-all problem which faces the manufacturer is how to get certain things done in the field which he feels must be done if his products are to be sold in sufficient volume to assure profitable operation, both currently and in the long run. He may get these things done through his own organizational structure—for instance, through sales branches and manufacturer-owned retail outlets—or he may use the services offered by brokers, wholesalers, retailers, and other intermediaries. His choice, however, is not solely between complete control through ownership and operation of marketing units in the field and a complete lack of control if the services of wholesalers and retailers are used. There is no sharp dividing line in control where ownership of the manufacturer ceases and that of distributors begins. The fact that they are independent legally does not mean that they are fully independent operationally. While the extent of their independence varies widely in different cases, at times it is slight and the line where it begins or ceases is difficult to determine. In other instances, the situation is reversed, and the distributor—for instance, a mail-order house or a chain-store company—may exercise considerable control over the manufacturer.

Cases in point in which the fact of ownership and legal independence of marketing intermediaries does not preclude extensive control by the manufacturer are automobile dealers and refrigerator distributors at the wholesale level. The manufacturer exercises very considerable influences over the policies and procedures which they follow. He attempts to get them to do certain things, such as to keep an adequate inventory, adopt a sound trade-in policy, handle service work effectively, maintain established prices, maintain adequate records, and advertise locally so that they will handle his products effectively. Furthermore, he is often reasonably successful, although he is likely to complain about noncompliance. If the products are not handled adequately, the manufacturer might be forced to go directly to consumers in the first instance or to dealers in the second, through his own organizational structure.

In one particular instance, that of an electric refrigerator manufacturer, both sales branches and independent distributors are used.

There is practically no variation in the manner in which they are handled from the home office. The same suggestions are made to each group, the same records are required, and the operations of each group are markedly similar, although some distributors likewise handle other manufacturers' products. In time, perhaps, the distributors will be superseded by branch offices, but, in the meantime, they are doing an excellent job, and the company apparently has no intention of replacing them while they continue to do so. Interestingly, distributors often co-operate more fully with suggestions from the home office than do branch managers. If the suggestions are good, the distributor may see profit possibilities through compliance, while the branch manager, who does not have a similar incentive, may demur or just not bother to comply. In a very real sense, these distributors are a part of the manufacturer's sales organization.

How the Problem Arises

The problem of selection of distribution channels arises under many different circumstances which affect the method of approach. The simplest, conceptually, is that for a new company organized around a product idea or a fully developed product. A company faces the problem of selection without much experience or knowledge of distribution channels. The problem arises more frequently when an established company develops or acquires a new product or a new line. If sufficient thought has been given to the problems involved in the constitution of a line of products, the problem of selection may not arise. Perhaps the new product would not have been taken on unless it would use the same channel as one of those presently in the company's line. Often, in the case of mergers, it was assumed that all products could be sold effectively through the same channel but experience proved otherwise and new channels had to be developed.

Changes in the market, or in the activities or importance of marketing intermediaries, may lead a company's executives seriously to doubt whether the channels presently used are the most effective. Increase in the density of demand in certain areas and the growth of chain stores are cases in point. Either type of change may lead to direct sales as an alternative to sales through wholesalers. After World War II some manufacturers who had been selling equipment and supplies directly to other manufacturing concerns reverted to selling through selected distributors because the market had "thinned out" and thus costs of direct sales were too high in some territories. A company's circumstances in regard to working capital or productive capacity, or its policies in regard to integration, attempted control of the market, prices, or service may lead to a review and possible change in the channels of distribution used. Finally, anti-trust action, such as

the Packers Consent Decree in the early twenties, may lead either to failure to enter or to withdrawal from the retailing field.

Factors Affecting Decisions on Distribution Channels

Either through analysis or trial and error, the manufacturer will attempt to choose that channel or those channels of distribution which will yield him the greatest net profit. Net profit, of course, is a function of both sales volume and the cost of sales. Additional sales volume, as every executive knows, can be achieved at too high cost. Direct selling may get the volume but, perhaps, at a cost ratio which is unduly high. Less direct selling, through wholesalers, for instance, may be at more reasonable cost but volume may be reduced. There is also the question of the effect of costs now incurred upon future volume prospects, but these in turn are an outgrowth of business conditions as well as the action of the manufacturer. Often the question comes down to whether or not the costs attendant on direct sale can be risked in the hope of additional volume either presently or at some time in the future. Because of the difficulty of the problem, it has often been approached by trial and error, but it does yield itself to analysis in some measure. This analysis deals with the manufacturer, the market, the product or the product line, and with the trade.

Conditions Surrounding the Manufacturer. A new or small manufacturer may be forced to select from among those channels of distribution which will necessitate the least financial commitment on his part, as well as the least training and experience in marketing work. Thus he may attempt to sell in large volume directly to very large buyers such as the mail-order houses, or he may try to interest brokers or wholesalers in his products. Perhaps he has neither the funds nor the know-how to create a sales organization and to create demand by advertising and other promotional methods. In contrast, a large well-established manufacturer may be able to do anything which he thinks should be done to get a product on the market through those channels which analysis indicates are most appropriate.

Nature and Extent of the Market. Before he can select a channel of distribution wisely, the manufacturer must know who the potential buyers of his products are, where they live, how many there are, and something of their buying habits. This is the sort of information secured through market research. Lacking this information, he cannot plan to meet their requirements by having stocks of merchandise available when and where needed. If potential buyers are heterogeneous in character and widely scattered geographically, if they buy frequently and in small quantities, there must be ready product availability which means that the product must be offered for sale in many retail outlets, perhaps of diverse character. This probably

means sales through wholesalers to many retail units. Direct sales, unless a manufacturer has a very wide line, would not be feasible. In contrast, if there are relatively few potential buyers; if they are concentrated territorially, i.e., there is density of demand; if they purchase in large volume, though less frequently; if their buying motives are rational ones, then direct sale is more feasible.

Nature of the Product or the Product Line. The nature of the product affects the choice of distribution channels simply because the selling task differs so markedly for different product types. Technical complexity, for instance, calls for service work of various sorts which marketing intermediaries may not be able to do effectively. To sell the product initially may require a technically trained person. Often product perishability makes necessary speed in distribution and thus a shorter distribution channel than would otherwise be needed. Product with low unit value may necessitate combination in sale with other manufacturers' products through wholesalers in order to secure a reasonable marketing cost.

The breadth of a manufacturer's line may be a controlling factor in selection. If he produces but one product or a number of products which go to different types of buyers, the likelihood is that the overhead costs of direct sale would be prohibitive. In contrast, if he produces a wide line of products which are of similar character and which go to the same class of buyers, direct sale to retailers may be entirely feasible. It is largely a question of the average size of the order secured per call. The order is increased by the association of a number of products in sale. This may be accomplished through the use of wholesalers or by the manufacturer himself. If the manufacturer has a wide line, perhaps the entire line customarily handled by a certain type of retail outlet—shoes, paints, and farm equipment—then, in a sense, the market is concentrated as well as the source of supply. This alignment between the products made and sold often leads to direct sale to retailers and, perhaps one step further, to manufacturer-owned retail outlets.

Availability and Competence of Distributive Outlets. Manufacturers often go direct simply because they cannot find good distributors. This does not necessarily mean that there are not good distributors of the type wanted. The particularly competent ones may be tied up by competitors through long association and an unwillingness, while relations remain cordial, to shift their allegiance to other manufacturers. The manufacturer may feel that it is better to go direct through his own branches than to have poor representation in a market, although he would rather avoid capital commitment, the development of an additional sales force, and the performance of other functions customarily performed by wholesalers or, in the industrial

equipment field, by manufacturers' agents. Often the transition to branch operation is not great because, in any event, the manufacturer is relieved of control and supervision only to a limited degree when he sells through independent distributors.

Approaches to the Problem of Selection

There are two broad approaches to the problem of selection, either or both of which may be used to advantage. One might be designated as an approach through experience; the other as an approach through analysis. A company, through its own experience with channels of distribution or through an investigation of how products have been sold in the market by others, may reach a conclusion that a certain channel would be most desirable for a new product. In contrast, a company might proceed through a careful analysis of what must be done if the product in question is to be sold effectively and an analysis of the operations of various distributors in the market in order to determine whether they can perform the necessary functions sufficiently well to make sales in the desired quantity. It is an analysis of needs on one side and capabilities on the other. Even if distributive agencies have not customarily performed the necessary functions, the further question arises whether they can be induced in some manner to do so.

If an established company expects to bring out a new product, one of the first steps is to determine whether existing channels for its other products will suffice. Perhaps, if not, the company's executives had better reconsider adding the product to the line. However, if the product has excellent profit possibilities, another channel may have to be selected. Then the established company is in somewhat the same position as the new concern which is placing a product on the market for the first time. Even though the product has some distinctive characteristics, the likelihood is that there are products on the market of much the same type or that it is associated with other products in use, and thus that the experience of other manufacturers will be helpful.

Either one of two steps may be taken to determine that experience. In the 1929 Census of Distribution and in the 1935 and the 1939 Censuses of Business, data were assembled on the distribution of sales of selected manufacturing industries through primary distribution channels.[6] The likelihood is that among these data would be some which would be helpful to anyone engaged in selecting distribution channels. The manufacturer might find information from this source on

[6] Data of this character were not collected in the 1948 Census of Business. They will probably be collected in the next Census of Business in 1953.

the exact product in which he was interested.[7] But as the classifications used are not particularly fine, it is more likely that the information available would pertain to a broader product group.

Another variant of this approach is to secure the information directly through an investigation in the field. Conceptually the procedure is simple, for it only involves the tracing back of products through distribution channels. In practice, it may be much more difficult if it is to be done thoroughly, since the problem of sampling is present. Suppose that a novel garden tool was invented and that the inventor established a small concern to produce and sell it. One way to proceed would be to find out if there was any similar tool on the market and, if so, what types of retail outlets handled it. It might also be handled by mail-order houses. If there was no similar tool on the market, then the investigator would find out where potential buyers of the tool bought other equipment which they needed. If they bought, let us say, from hardware stores or seed stores, then he would secure information on where these stores secured their other supplies, probably from certain types of wholesale distributor.

Through this procedure the distribution channel used could be determined in reverse. For a particular area such a procedure could be carried forward quickly and without much difficulty. But the question as to whether that one area was typical would arise. Also, if it was discovered that more than one channel was used, information would not be available as to the proportion of the product or products which went through each channel. The procedural device nevertheless has merit. Perhaps it could be supplemented by information secured from manufacturers of similar but noncompeting equipment items on the channels of distribution which they used.

The second broad approach is an analysis of the selling task, on the one hand, and of the capabilities of distributors, on the other. It is often stated that a manufacturer does not go directly to potential buyers through his own organization unless he needs to do so. Consider the Singer Sewing Machine Company which has its own retail outlets throughout the United States and in many foreign countries. Under circumstances such as this, the manufacturer's field organization becomes very extensive and highly complex in its operations. Still, in view of the nature of the product, its manner of use, and the manner in which the Singer Company thinks its product should be sold and serviced, independent distributors were apparently found wanting, and the decision was made to establish manufacturer-owned retail outlets.

The procedures followed in this sort of an analysis are familiar to anyone who has studied basic marketing texts. The functions performed by each type of market intermediary, their relative effective-

[7] See Harold H. Maynard and Theodore N. Beckman, *Principles of Marketing* (4th ed.; New York: Ronald Press, Inc., 1946), pp. 33–36.

ness in the performance of each, and the advantages and disadvantages experienced by producers using them are thoroughly covered and will not be reviewed here. Another pertinent question—one likewise considered, but less effectively, in marketing texts—is what distributors can be induced to do for the manufacturer under proper incentives. This leads us into the question of selectivity in distribution, since the principal advantage which the manufacturer can offer a distributor is protection against direct competition from other distributors of his particular products, perhaps on the basis of price.

Selectivity in Distribution Channels

Problems involving the number of outlets required either at the wholesale or the retail level are more common than those involving the types of outlet. It is basically a question of whether competition in the manufacturer's products will be restricted and to what extent. At one extreme, no attempt will be made to avoid competition. The product is placed in every wholesale and retail unit which can be induced to stock it. Cigarettes and nationally advertised food products, such as jello and breakfast cereals, are cases in point. At the other extreme, exclusive agencies are given covering communities or trading areas large enough so that little, if any, competition on the particular brand appears. Household durables such as refrigerators, stoves, and amusement items are usually sold in this manner.

Between these two extremes, there are many gradations of selective distribution. A manufacturer, for instance, may sell through only one wholesaler in an urban center who may either be given a definite territory or be permitted to sell in the territory which he usually covers. Thus, there may be some competition among wholesalers at the fringes of their territories, but only there. The manufacturer or his wholesale representative may sell to only one retailer in each town or retail shopping center within a metropolitan community. Perhaps sales are made to more than one dealer, but, still, the number is limited more than through a policy of non-selection. But whenever selection takes place, the advantage of exclusiveness in representation, either complete or partial, is likely to be accompanied by certain demands on the part of the manufacturer. As certain advantages have been given to distributive outlets, they are expected to assume certain obligations. It is a question of give and take between the two parties.

In an agreement under selective distribution, the principal advantages which the manufacturer can offer the wholesaler or retailer are some measure of exclusiveness in territorial representation, perhaps for a line or for an individual product; favorable prices and terms of sale; financing; price protection on inventories; and substantial aid in sales promotion.

The distributor, in turn, may be induced to act in much the same

manner as would the manufacturer's sales branches or his own retail outlets. This may mean the carrying of fully adequate inventories; maintenance of suggested prices; service to customers as suggested by the manufacturer; and aggressive promotion of certain types and at certain levels. In addition, for the selected wholesaler, it may mean departmentalization along certain suggested lines, functionally or productwise. These may either be matters of contractual arrangement or mutual understanding.

Under the circumstances just outlined, the distributor's organization is part of the organization of the manufacturer from an operational point of view. The organizational problems previously discussed all arise—and sometimes in aggravated form—simply because the distributor is legally independent. He cannot be ordered to do things as could a branch manager, but orders are seldom necessary. Tact and persuasion may need to be used to a greater extent under such circumstances, for there is a certain onus attached to control by the manufacturer. This must be counterbalanced by the advantages given to the selected distributor and the likelihood of enhanced profits.

Policy on Market Coverage

In addition to questions on the type and number of distributors or on the number of sales branches, there is a closely related question on their location. In fact, it is a part of the broader question of the distribution of sales effort over the market or market coverage. On this question, errors in judgment have frequently been made. The desire of management to expand rapidly and to get national coverage has led to unwise decisions. It has not been recognized sufficiently that, although home office personnel can be increased rapidly, considerable time and effort is needed to mold it into a knowledgeable, effective, and hard-hitting unit. This suggests, initially at least, an intensive coverage of a limited market rather than an attempt to cover the national market too soon after operations begin, and that distributors be selected or branches established within the confines of this limited market.

There are other reasons, too, for this less ambitious approach to the market. Each manufacturer has a "zone of natural advantage" around his location of production. The costs of getting his products to the nearby market are less than are those of more distant competitors. This fact is of particular importance for those concerns which are absorbing freight and thus selling on a common delivered price basis. Under such circumstances, the net price realized after freight charges are paid will increase as sales are made closer to the location of manufacture. For instance, if refrigerators are sold to dealers in California

at the same price as to dealers in Michigan by a Michigan manufacturer, his nearby sales are much more profitable than his sales far afield. Again, this suggests market development in areas contiguous to production rather than more extensive cultivation of the market.

Sales in relatively nearby areas are likely to be made at lower cost if other factors, such as market density, are equal. Some advantage is given by the fact that people in the surrounding area are likely to know of the company and its products. Perhaps its own employees and their friends are potential purchasers. In one particular study, it was discovered that a truck manufacturing concern obtained a much larger proportion of total sales within a radius of 200 miles of its factory than in more distant areas. Apparently the influence of the company's location extended about that far but no farther. Instances are numerous in which companies have concentrated their operations territorially by withdrawal from distant sectors of the market and have substantially improved their profits by so doing. Their motivation may have been studies which showed that sales costs were high in more distant territories. Perhaps these territories had actually been determined unprofitable through distribution cost accounting. Studies of this character, which reveal the source of profits territorially and by classes of customer, are helpful in choice of the type, number, and location of marketing units in the field, whether they are to be company-owned and -operated or independent.

STRUCTURE OF BUSINESS ORGANIZATIONS

The organizations used for military, governmental, and economic purposes have been thoroughly studied, classified, and described by social and military scientists. As a consequence, there is considerable material available on types of organizational structures.[8] Moreover, this material is usually included in general management courses and consequently will be discussed only briefly here.

The organizational types generally recognized are those of line, line and staff, and functional. At times the committee type is recognized although seldom, if ever, used alone. The basic fabric of managerial control is the line organization. At the inception of an enterprise and while it remains small, the owner-manager may give orders to all of his employees. As the enterprise grows he delegates some authority to others who in turn may give orders to still others further down the line. The chain of command may become long in large companies; that is, there may be many levels at which authority is exercised. In a sales organization, the line may proceed from a president to a vice-president in charge of sales, a sales manager, an assistant

[8] See Peterson and Plowman, *op. cit.*, chap. x.

sales manager, a regional sales manager, a branch manager, on to the individual salesman.

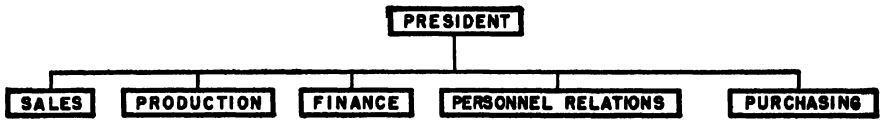
If management at any level brings in people for particular tasks of a research or planning character, they are usually designated as *staff* members. The purpose in mind is to relieve the line executive of some work for which he does not have time, or for which he is not particularly well trained or well suited. They may work on legal, technical, organizational, public relations, personnel, or many other types of problems; and then advise with the executive to whom they are attached as to what action should be taken. They work alone or with only a few assistants and have no line authority beyond this small group. If they wish something done by way of a change in policy or procedure, they do not command others to do it, but rather advise the executive under whom they work that he should do so.

Staff people attached to line executives are usually found in large concerns rather than in small ones. The title may be "assistant to the president" or "assistant to the general manager" if they are actually staff officers. In contrast, if the title used is "vice-president" or "assistant manager," line authority has been delegated to them. The title of "deputy" is now used frequently, particularly in government. The title usually signifies that the person so designated acts for or in the absence of his superior in rank, and thus is a line officer, at least on occasion, if not at all times.

Thus it is apparent that staff members are functional personnel, but without independence in action or line authority. Although they lack line authority, it is often surprising how much influence they have on the decisions of other people in the organization, both on matters of policy and operations. By force of personality and by superior knowledge along the lines of their special competence, they may come to dominate the thinking of others.[9] Line authority is then unnecessary to get things done in a certain way. Often, however, this is a transitional stage. If they become particularly useful individuals and the work which they do assumes additional importance, they may be given more authority both in action and supervision. Instead of going through the executive to whom they are attached in order to secure action on recommendations, they are placed in a position where they may act independently and command others. They be-

[9] "The status of the staff assistant varies all the way from that of a mere clerk to that of a general manager, depending upon the qualities he brings to the job and the willingness of his chief to delegate responsibility. In some ways his task is much more difficult than that of the line manager . . . , since the staff man possesses only the authority of ideas. . . . By usage and general understanding, staff functions may be so well organized and so thoroughly grooved that they operate to all intents and purposes as line functions." A. A. Stambaugh, "Building the Sales Organization," *Organization behind the Salesman* (Marketing Series, Number 64) (New York: American Management Association, 1946), pp. 6–7.

FIGURE 4.—FUNCTIONAL PLAN OF ORGANIZATION



come department heads in the familiar functional organization. An evolutionary process has taken place from purely staff authority to line-and-functional authority. Specialized personnel has been "fitted into" the organization proper.

The functional organization is the one most used by business concerns other than the very small ones. Staff members may be added if the need arises. The breakdown of functions usually includes those concerned with finance, sales, production, personnel, and purchasing as indicated in Figure 4. Each of these may be broken down in turn, as will presently be indicated in reference to sales. Those individuals to whom are delegated authority and responsibility in each of these functional areas not only advise the president or general manager as to policy and action in their respective fields but also, within certain boundaries prescribed by agreement or common sense, take action independently. In most instances, they also exercise line authority over a considerable number of people. They in turn may delegate authority and responsibility to subordinates, and still other levels in the organizational structure are thus created.

In very large concerns, such as those in the automobile, petroleum, or electrical equipment industries, a number of divisions which operate in a semiautonomous capacity will each have a functional organization of the type shown in Figure 4. On top of these divisions will be an organizational superstructure which indicates that these divisions are not in fact independent but that their activities are supervised and co-ordinated in some measure by still higher levels of authority and responsibility. At times, much the same type of structure is created on a regional basis. In other words, a functional organization is created to handle all company activities within each of a number of areas on a semiautonomous basis but under the general supervision and control of higher levels of management.[10]

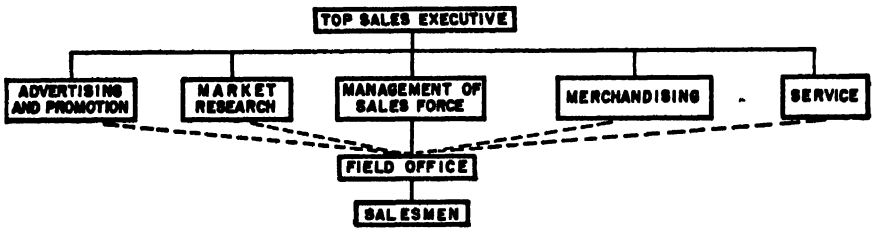
STRUCTURE OF SALES ORGANIZATIONS

Departmentalization at the Home Office

When a business concern becomes so large that the home office work in reference to sales activities cannot be handled by one man, the question of breaking down his work on some rational basis comes

[10] See P. H. Nystrom (ed.), *Marketing Handbook* (New York: Ronald Press, Inc., 1948), pp. 613–19.

FIGURE 5.—FUNCTIONAL SALES ORGANIZATION[11]



to the fore. There are four principal bases for a breakdown which may be used: those of function, product, customer, and location. Furthermore, there may be variations possible in each, and there is always the possibility of combinations among them. This explains the pronounced variation in home office sales organization of American companies. The essential fact is that there are many variables involved which can be combined in many different ways or, speaking in other terms, that an organization is an expression of the nature of the selling task, and this differs markedly between different companies depending upon the product which they manufacture, the markets which they cultivate, etc.

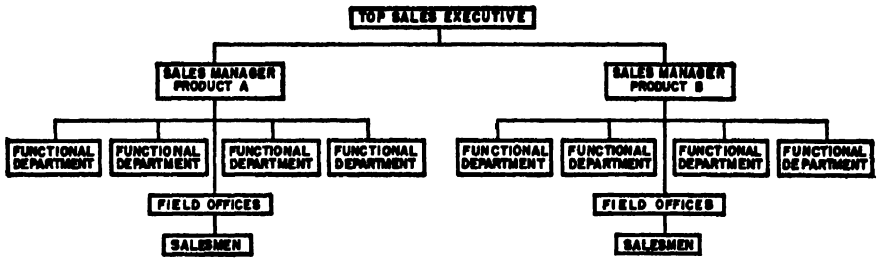
Despite this heterogeneity a number of general types can be distinguished. They are as follows: (1) functional; (2) product-functional or product-staff; (3) customer or market; (4) regional or geographical; (5) combined types. Each of these will be discussed in turn.

Functional Departmentalization. This type is simply an extension of functional organization for the business as a whole. The work in sales is broken down on some rational basis, often to market research, advertising and promotion, merchandising or product development, and management of sales personnel. Export and service departments may be needed. If the principal sales executive is called vice-president in charge of sales, management of sales personnel may be the only responsibility of the sales manager. The general plan of sales organization, shown in Figure 5, is used by many companies, particularly those which have only one product or a well-integrated line and a large number of relatively small customers widely distributed throughout the market. Under such circumstances, neither a product nor a customer basis of departmental specialization would probably be considered. However, a combination with regional departmentalization might be desirable.

Product-Functional Departmentalization. Product departmentali-

[11] In organization charts the *full line* indicates line authority or the power to command whereas the *broken line* indicates only the power to advise or suggest action. The broken lines will be omitted in the figures which follow in order to reduce their size and thus conserve space.

FIGURE 6.—PRODUCT-FUNCTIONAL DEPARTMENTALIZATION

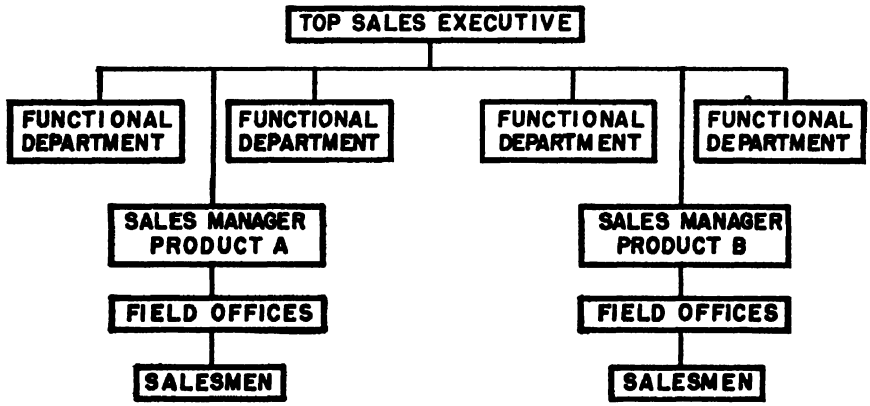


zation may take any one of several forms. There may be a line organization under each of two or more products without a functional or regional breakdown likewise. Usually, however, product departmentalization is combined with the functional or regional type. It is simply a question as to the extent of departmentalization on a product basis which is needed in view of product differences. Under the top sales executive, there can be almost complete isolation of products or product lines in the organizational structure, as indicated in Figure 6. The sales organization for each product then acts independently of the others, but some measure of co-ordination is provided through the top sales executive.

Product departmentalization, to this extent, appears only when a company manufactures markedly dissimilar products, for each of which a high degree of specialization in selling is needed. When companies have been merged, they have often retained the sales organization of each company intact, at least until the desirability of combining the sales organizations is fully investigated and, perhaps, tried out in some parts of the market. Often it has been discovered that the marketing problems were so different that merger of selling activities was unwise. If products are markedly dissimilar in type, if they go to different markets, if they can not be sold effectively by the same sales force, and if the problems of advertising and other promotion are different, this kind of departmentalization may be desirable. Of course, the question may be raised as to whether two or more products so dissimilar in type should be produced and marketed by the same company. Perhaps the products are in alignment on the production side but not on the marketing side. At least the case for combination of such products in a line is not particularly strong if no economies are gained in distribution.

A second variation in product departmentalization is one of line rather than function, as shown in Figure 7. This type might be termed "functional-product" in contrast to the one previously discussed. Staff functions are performed under a general sales manager or the vice-president in charge of sales; thus there is no duplication in functional structure, as in the previous instance. Line authority remains segre-

FIGURE 7.—FUNCTIONAL-PRODUCT DEPARTMENTALIZATION



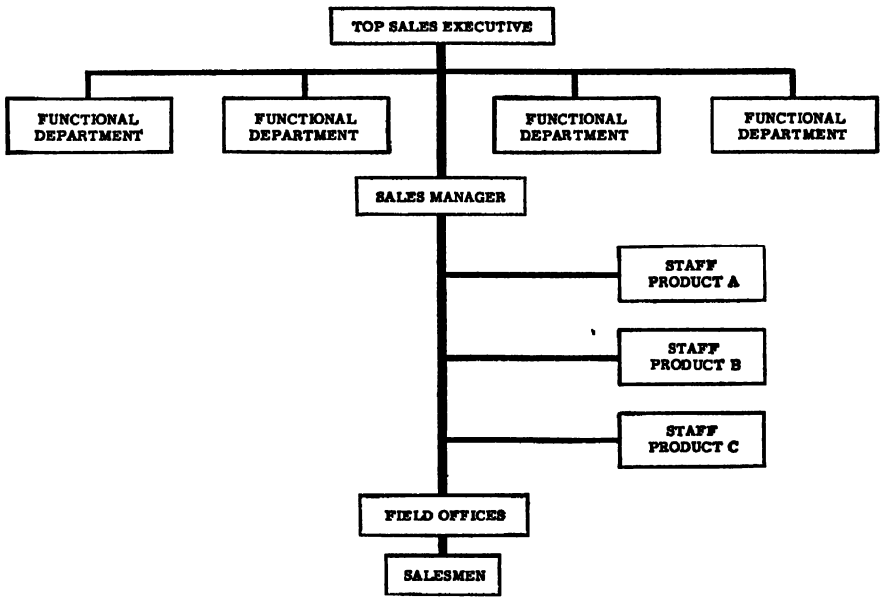
gated for each product. There is still duplication in sales managers, field offices, and in the sales force. In an instance such as this, the functional officers would act in an advisory capacity to the product sales managers. The line authority would go back through the top sales executive, probably a vice-president in charge of all sales.

While this is one step further toward co-ordination than in the product-functional type, product specialization is still present in large measure throughout the organizational structure and can be justified only on the basis of product dissimilarity. Still, in both instances, confusion which might be present in home office work, if all products were handled together, is avoided. Moreover, singleness of purpose, which is the fruit of specialization, might produce results sufficiently good to counterbalance the additional costs which would probably be incurred.

A third variation in product departmentalization is one of product specialization at the staff level as shown in Figure 8. In order to get some special attention to products although they are all handled by the same sales force under one sales manager, personnel acting in staff capacity are assigned to particular products or product groups. These staff people may report directly to the vice-president in charge of sales or to the sales manager. They often act in an advisory capacity to field offices and salesmen and contact customers who have particularly difficult problems to solve which involve the company's products. They may be given responsibility for merchandising work through which the company's products are kept in the forefront in design and consumer acceptability.

Among the three variations in product departmentalization, this one constitutes the least departure from a purely functional approach. The benefits of combining products in functional activity, likewise in field selling, are retained. Still, each product or product class gets con-

FIGURE 8.—FUNCTIONAL-PRODUCT STAFF DEPARTMENTALIZATION

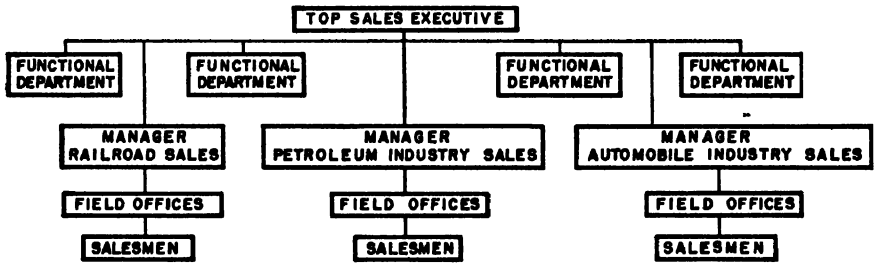


siderable attention from one individual. Therefore, it is not likely that certain products or product classes will be neglected, either because of inattention, or lack of sufficient knowledge to handle them effectively. Differences in products and in the problems connected with their sales are recognized.

Customer Departmentalization. When sales are made to markedly different types of customers, these customers are relatively few in number but large potential buyers, and the problems involved in selling to each type vary greatly, it may be wise to departmentalize on a customer basis as shown in Figure 9. Suppose, for instance, that a manufacturer of industrial equipment sold principally to the railroad, petroleum, and automobile industries, and that the product sold was substantially the same in each instance. There would be little reason for product departmentalization, unless the product was used in a different manner by each industry or had to be adapted in some way for use by each. In order to secure unity of purpose and concentration on the problems of selling to each industry, departmentalization on a customer-industry basis would probably produce the best results.

Often companies sell both to industry directly and to consumers through wholesalers and retailers. The problems of handling each type of business are dissimilar. The product itself, although the same basically, may have to be prepared differently through packaging, labeling, and branding to meet the needs of the two markets. Promotional problems, as well as the type of salesmen needed to solicit or-

FIGURE 9.—TYPE-OF-CUSTOMER DEPARTMENTALIZATION



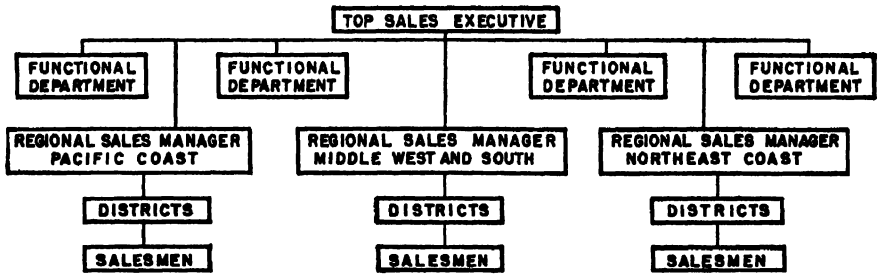
ders, would be markedly different in each type of market. In an instance such as this, the over-all task of selling would vary more with the type of customer than with the type of product; therefore departmentalization by customer type would probably be advisable.

Regional Departmentalization. Large concerns, which sell throughout the national market to a large number of buyers, are likely to departmentalize on a regional basis, as shown in Figure 10. In some instances, the problems of selling may vary in different regions or, perhaps, different regions may concentrate their purchases in different parts of a company's line. The principal reason for departmentalization on this basis, however, is that greater delegation of authority and responsibility is needed in view of the dimensions of the sales task. The task of supervision and control needs to be broken down, and therefore sales departments are established on a regional basis and these in turn may be broken down to districts and branches. Personnel assigned to these various geographical units administer policies and follow procedures established in the home office and report to the field officer next highest in line. The regional managers, as such, report directly to the top sales executive at the home office.

Combined Types. It will be apparent that, in view of the number of bases on which departmentalization may take place, the number of combinations are many. The most usual one is a combination of product departmentalization with the functional type as shown previously. A combination of the regional type with the product type is not uncommon. This may be envisaged by considering a combination of the organizational structures shown in Figures 7 and 10. Staff personnel assigned on a product basis could be attached to a vice-president in charge of sales or, perhaps, to a general sales manager whose principal task was to co-ordinate the work of the regional sales managers. In any case, a two-way departmentalization is one whereby dual specialization is achieved, for instance, in both product and function or product and market.

Two illustrations of the combined type of home office departmentalization are given in Figures 11 and 12. The first of these is the sales organization of The Dow Chemical Company. It is of the functional-

FIGURE 10.—REGIONAL DEPARTMENTALIZATION



product type, but with product specialization at two levels. The managers of the three divisions—plastics, magnesium, and agricultural chemical—are staff officers and under the general manager. They act as co-ordinators between sales and production and often initiate research in relation to their respective products. They do not have any direct supervisory control over the sales managers for these products but act only in an advisory capacity.

There is a further organizational breakdown under some of the product sales managers, omitted from the chart for purposes of simplicity. It is on the basis of product groupings or, as in the case of magnesium and plastics, particular product uses or methods by which the product is fabricated by the customer. In the case of plastics, the sections under the plastics sales manager are for molding powder, packaging and sheeting, coatings and raw materials, merchandising, production control, and Styrofoam. In magnesium there are sales departments for anode, fabrication, ingots, die casting, foundry, and wrought products, likewise product development and technical service departments.

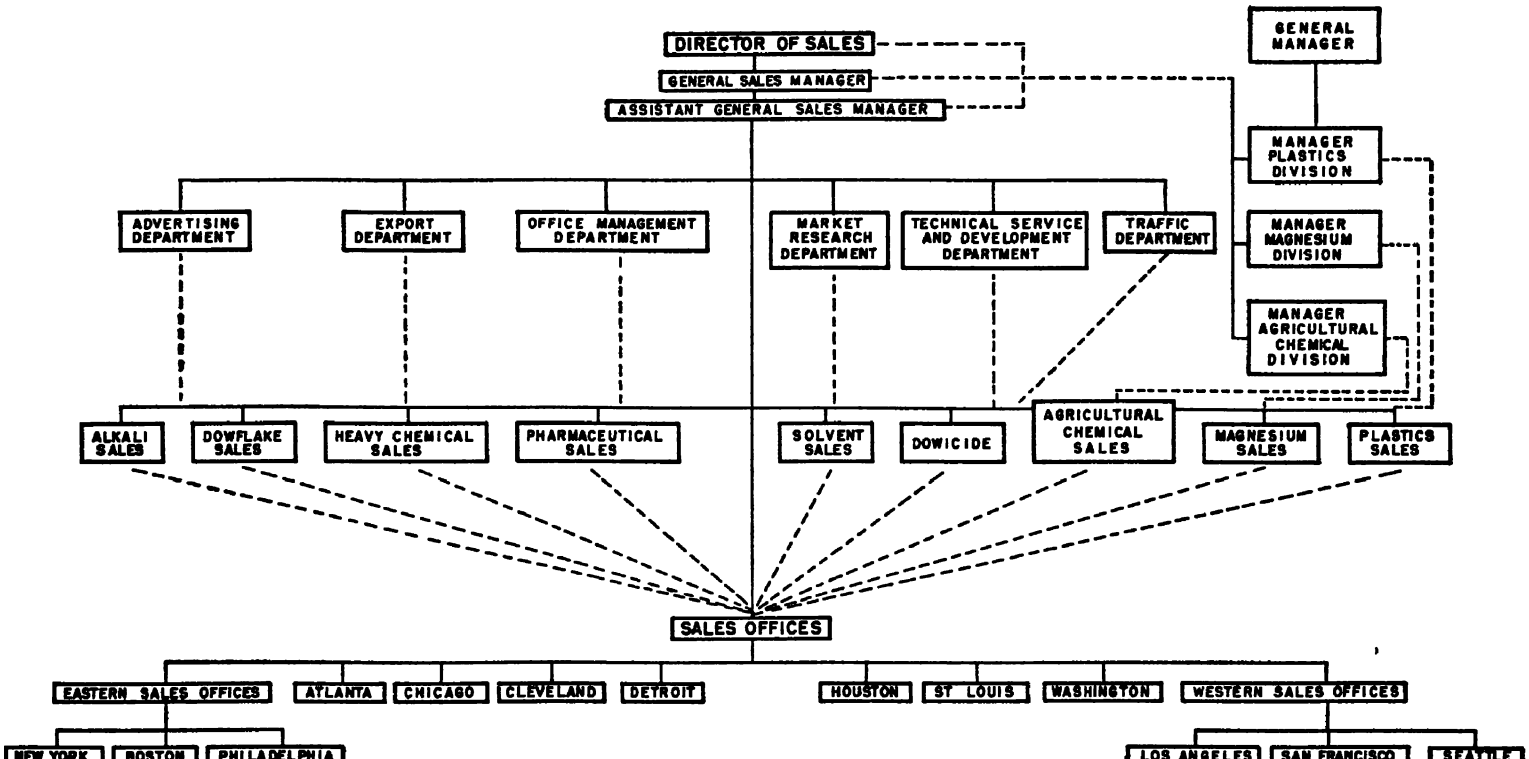
The various product sales managers are constantly in touch with the field offices. While the line of authority is back through the top sales executives to the field offices, these product sales managers in day-to-day activities operate much as line executives. There is some specialization by salesmen by products at certain field offices, particularly in agricultural chemical, magnesium, and plastics sales. Product uses for plastics and magnesium are markedly different than for chemicals. They go to different types of customer and their sales require special knowledge and training on the part of company representatives. Still each sales office manager is given full authority and responsibility for the operation of his office. It will be observed that in two instances, i.e., the Eastern Sales Office and the Western Sales Office, there is another level of management. There is a manager at each of these offices who is responsible for the operation of other offices.

Figure 12 shows the sales organization of a container manufacturer with a widely varied line made from a single basic material. Organization is of the combination type with both functional and customer-

FIGURE 11

THE DOW CHEMICAL COMPANY

Sales Department Organization, July, 1950



industry departmentalization. There is only one product department (closure and plastics), but departmentalization on the customer basis, in this instance, achieves much wider departmentalization on a product basis because a certain type of product may go only to the food industries, another to the beverage industries, etc.

This organization is notable in that it provides for a Division Managers Sales Council, also a Sales Policy Committee, both in an advisory capacity to the Vice-President and General Sales Manager. The Council brings together both the home office and field managers for a discussion of company problems. The Policy Committee includes only home office executives, some of whom are from other departments of the business. Through the Council and the Committee, co-ordination is achieved, and all of the responsible executives of the company are given the opportunity to influence both the policies and procedures through which the company operates.

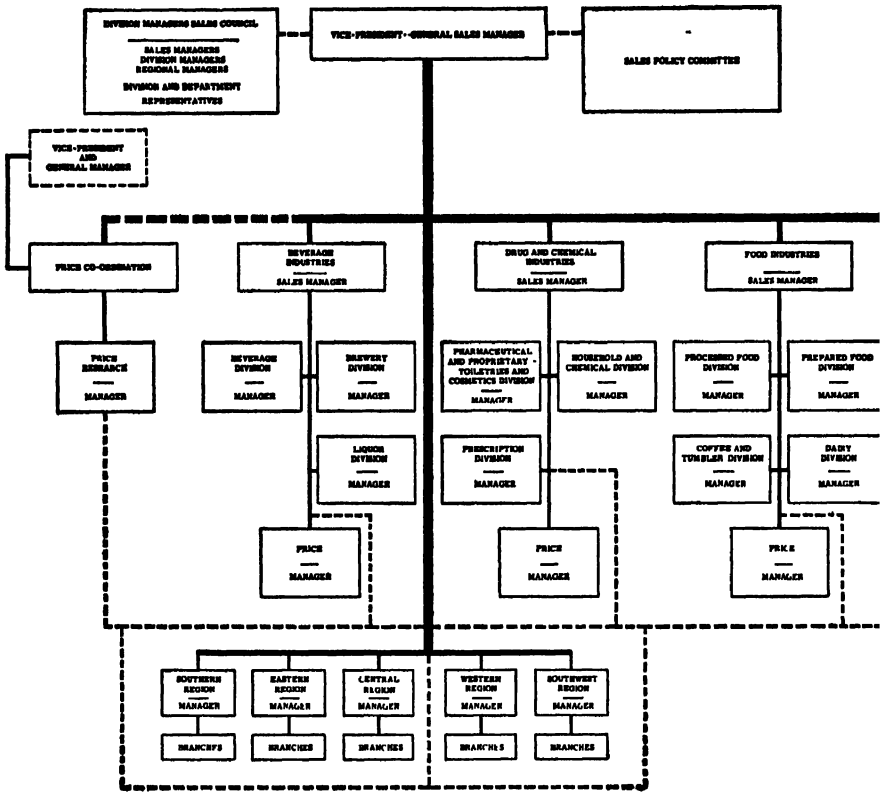
It will be noted that the pricing function is under the Vice-President and General Manager, but that very close co-ordination is provided with the sales department. The General Branch Manager operates somewhat in the capacity of an assistant general sales manager. He is in charge of sales personnel work, including recruiting, selection, training, incentives, and compensation. Analytical work on sales control and market research is under his general direction, likewise some interdepartmental liaison such as that with credit and traffic departments. The company sells a very small proportion of its volume to small accounts through jobbers. Their operations have to be supervised carefully to secure a uniform and sufficiently high level of performance to serve customers effectively. Then there also are problems of co-ordination between the activities of the branches and those of the jobbers. These problems are handled by the General Branch Manager. Finally, the Package Research Division might well be called product planning or product development. The company does a great deal of effective work in reference to design, equipment, and service to aid its customers in securing the types of container which will best meet their needs. The Advertising and Publicity Department also furnishes valuable assistance to customers on their sales promotion, merchandising and product publicity problems.

Summary-Home Office Departmentalization. The problem of departmentalization is one of breaking down the over-all sales task into manageable units. If a company has only one product or a well-integrated line and if it is sold to only one type of customer, a functional basis of departmentalization may suffice. In contrast, if a company produces many products, some of which are markedly dissimilar, and sells to many different types of customers, the problem arises of determining whether the task of selling varies more with product type, type of customer, or, perhaps, with geographical areas. This is often

FIGURE 12

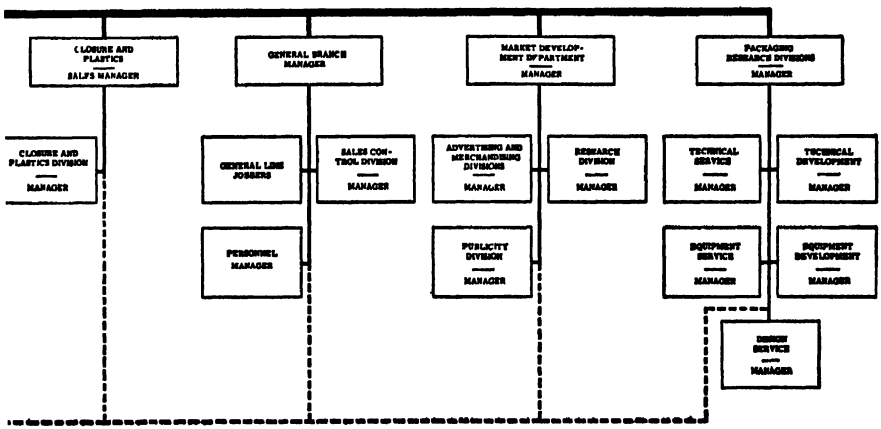
A CONTAINER MANUFACTURER

Sales Operating Chart, February, 1950



a most difficult problem to solve. As a result companies have had to experiment in the hope of discovering a basis of departmentalization which produces good results.

In one instance, in the petroleum industry, a company has shifted back and forth between a product and a type-of-customer basis more than once in an effort to improve its organizational structure. The basic difficulty is that the different types of customers served all buy many of the company's products. Product specialization is not achieved by customer specialization. Nor are certain types of customers concentrated in certain areas. Therefore, regional specialization does not achieve customer or product specialization. The situation is not one in which a certain type of product is sold largely to a certain type of customer who is located predominately in only a certain part of the national market. In that case, specialization on any one of the three bases—product, customer, or region—in some significant measure would achieve specialization on the others. The usual situation is



much more complicated than this. The difficulty of the problem of departmentalization is largely an outgrowth of this fact. Sounder policy on the constitution of the line of products would simplify the problem appreciably. One is forced to the conclusion that departmentalization on a product basis is often the result of an unwise grouping of products for manufacture and sale by business concerns.

Departmentalization of Subsidiaries and Field Offices

The problem of departmentalization, other than in the home office, arises under two different conditions: first, when a large company has subsidiaries, often secured through mergers; and, second, when a company has regional, district, or branch sales offices which do a considerable volume of business. In the first case, the problem is a question of centralization or decentralization of certain functions, for instance, marketing research. Only recently, one of the large food companies decided to disband the marketing research departments of its subsidiaries and centralize all such work at the home office. This move, it was thought, would permit more specialization in the performance of the research function, unify the research program, and reduce costs. Whether or not it is wise to merge the work of the subsidiaries with

that of the home office depends upon the size of the subsidiaries, whether they as individual entities have problems not common to the group, and the extent of decentralization in other areas of management. Each function must be considered separately, and a decision made as to whether it can be performed acceptably for the group at the home office or whether there is some net advantage through decentralization.

In the second case, the question is whether or not to extend specialized activities of certain types from the home office to the field offices. A decision must be made as to the need for these activities and, if the need is present, whether they can be performed to the required extent by the manager or some general assistant or should be handled through departments. There are certain functions which often need to be performed at the field office level. Among these are service work of all types—survey, demonstration, installation, after-service; credit and collection; sales training; and record-keeping in reference to sales activities. At times, advertising and marketing research are also departmentalized at the field office level. If there is a sufficient volume of work in any of these functional areas, it may be wise to establish departmental units. These units will be an extension of home office units of like type.

When there are parallel departments in the field and in the home office, there is always a tendency for home office departments to attempt to control their counterparts in the field. In other words, the question arises whether the home office department head or the field office manager has line authority. In most instances, the field office manager is given this authority. For instance, the head of the service department in a branch office is usually under the branch manager and not under the service department manager in the home office. This rests on the sound principle that, if the branch manager is to be held accountable for the success of the branch office, he should have authority over those people who participate in the work of the office. Relations with the customers of the branch are in his hands and good relations are a product of both effective selling and good service. Furthermore, the branch manager is on the ground and thus is in a position to exert authority promptly when the need arises.

In all functional activities the parallel departments at the home office act in an advisory capacity to those in the field offices. One of their principal functions is the formulation of policy for the guidance of people in the field. If department heads in the home office feel that functional activities with which they are concerned are not being performed acceptably in the field offices, they can initiate corrective action through top sales executives at the home office who have line authority over field office managers.

REVIEW AND DISCUSSION QUESTIONS

1. Define "organization." What is its essential purpose? Should the organizational structure be built around people or activities?
2. State briefly the nature of the essential problem involved in determining the structure of a sales organization, both in the home office and in the field.
3. If an organizational structure is being built "from scratch," what is the proper approach to the problem?
4. Why are organizational problems so frequently neglected by business executives?
5. Why are business executives reluctant to change organizational structures even though substantial evidence has accumulated that the structures in use no longer meet the needs of their companies?
6. Comment on the following quotations:
   a) "A prime weakness of many approaches to the problems of organization lies in the fact that one company sometimes adopts an organization structure designed to solve another company's problems."
   b) "In far too many companies the troublesome problems of operation can be traced to misinterpretation of the real purpose of an organizational structure. Sound management does not look upon its organization as a series of 'slots' or 'pigeonholes' into which individuals are put and left to shift for themselves. Organization cannot be thought about one day and forgotten the next; there is need for constant review and analysis in line with the objectives to be accomplished and the conditions encountered."
7. Apparently, there is a movement toward greater decentralization in management of American industry. What are the probable reasons behind this movement?
8. What are the procedures by which the assignments of authority and responsibility, by departments and on to individuals, can be made clear to all parts of an organization?
9. Discuss the various approaches to the selection of channels of distribution which may be taken by manufacturing concerns.
10. What is the initial decision which management must reach as a condition precedent to the selection of a particular type of sales organization?
11. Do staff personnel act in a line or a functional capacity? What is the nature of their duties. By what means do they exert influence in an organization?
12. Refer to Figure 11. How would you classify The Dow Chemical Company organization? What are the probable reasons for a sales organization of this type? What are the responsibilities of the product division managers? What is the nature of their relationships to other departmental units?

13. Refer to Figure 12. How would you classify this organization? What are the probable reasons for a sales organization of this type? In this organization, does departmentalization on one basis achieve specialization on other bases? Should there be specialization by salesmen, as well as by management, on a customer basis? What problems would probably be considered by the Division Managers Sales Council? By the Sales Policy Committee?

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Chapter XIII

PLANNING THE SALES ORGANIZATION (*Continued*)

Functional Breakdown of the Sales Task

WHILE the functional breakdown of the sales task differs markedly between companies, some combination of the following departments is likely to be found under chief sales executives: sales department (management of sales and service personnel); advertising and sales promotion; market research or sales analysis; merchandising or product development; personnel or sales training; export; order or office management; service; and, perhaps, sales planning, public relations, and traffic. Each of these, in turn, may be further subdivided if the volume of work permits specialization and formal recognition of that fact is desired. While too great departmentalization should be avoided, there is advantage in recognizing organizationally that specialization has taken place. Others know to whom to go for information on certain matters, and greater opportunity is provided for recognition of employees by making them department heads and giving them titles. The importance of such recognition to morale and to job satisfaction should not be underestimated.

Sales Department. When a company has a top sales executive with the title of vice-president or director of sales, another executive is likely to be called sales manager. At times the two titles are vested in one person. The functions performed in his department are those concerned with management of the field selling forces. These are considered in detail in Part VI. They include recruitment, selection, training, control and supervision, stimulation, and compensation of the sales force. This is the responsibility of building and maintaining a field selling organization. In addition, however, the sales manager is given the responsibility of using it. He is the chief line executive under the director of sales and thus has responsibility for the execution of programs and implementation of policies formulated by other functional departments if the programs or policies involve activities necessarily performed by field managers or salesmen.

Advertising and Promotion Department. The functions performed by this department are, in part, apparent even to the layman. First, it serves as the liaison between the advertising agency, other independent promotional specialists, and those executives who make

final decisions on promotional matters. Questions of copy appeals, layout, frequency of insertions, coverage, expenditures, and a host of others must be worked out with the agency and approved by top executives. In addition, the department must plan and have produced the promotional materials which are used by salesmen or sent directly to the company's distributors and dealers. These may include catalogues, pamphlets, displays, special racks, and pictorial materials which may help in the sale of the company's products. Planning for sampling campaigns, free deals, advertising allowances, and co-operative advertising with dealers—all are likely to come under the jurisdiction of this department.

There is much room for specialization in the performance of these functions. Frequently, advertising and sales promotion are placed in separate, co-ordinate departments. There is some justification for this practice because of difference in task, but the close co-ordination which is needed may then be more difficult to achieve. There may be a further departmental breakdown on the basis of media—magazines and newspapers, trade publications, direct mail, radio, television, etc. Between some of these there is marked variation in the knowledge and experience required and in the actual tasks which must be performed. In large companies, there may be specialists in each of these fields, perhaps in charge of subdepartments under advertising and promotion.

Market Research Department. The range of the functions performed by a market research department depends largely upon whether a company also has a product development or merchandising department. In that event, the qualitative aspects of merchandising are segregated from the quantitative aspects. The market research department then may confine its activities to the determination of market potentials, sales potentials and quotas; the analysis of internal sales records, or sales analysis, as it is usually termed; the problems of expense control through distribution cost accounting and other means of determining and testing sales expenditures, perhaps including those of advertising; the determination of competitive position; and miscellaneous fact-finding activities suggested by top management. Again, there is much opportunity for further departmentalization, perhaps along the following lines: forecasting, sales analysis, expense control, market surveys, and statistics. Both qualitative and quantitative investigations may be placed in one department which may then be called either market research or merchandising.

Merchandising or Product Development. The broad function here performed is that of product planning. It is a question of planning for the adjustment of products to the qualitative characteristics of demand. Included are all of those activities necessary to determine consumers' attitudes toward products, projected or in use; product

and market testing, constitution of a line, product designing and styling in so far as this function is delegated to sales executives, packaging and labeling, and co-ordination with other departments—notably production—along these lines. In one particular instance in the chemical industry, the product development department is entrusted with the actual sales of each new product until the introductory period is over and the product has a substantial continuing sales volume. It has the responsibility for initial market development as well as product development. Executives feel that a product is not fully developed until all difficulties in its use have been overcome and it is used successfully, even habitually, by many customers.

Personnel or Sales Training Department. In large concerns, the functions which need to be performed in securing and training a sales force may be segregated in a department under the sales manager or even co-ordinate with him under a director of sales. The function of sales training is given particular prominence, in fact the title used may be "director of sales training." Companies which manufacture technical products, such as those in the office equipment and machine tool industries, must have high caliber, well-trained salesmen. They apparently believe that segregation of the selection and training functions in a separate department staffed by people who are themselves carefully selected and trained will center attention on these functions and produce a better sales force.

Export Department. Many of the functions necessarily performed in export business may either be handled in an export department or delegated to independent agencies, such as export and import houses, export commission merchants and brokers, freight forwarders, customs brokers, and other intermediaries. The services of specialized agencies are always used to some extent, but it varies, depending principally on the amount of export business. All the work of export may be delegated to a combination export manager who serves a number of concerns. More usually, however, there will be a so-called "built-in" export department which handles only those functions peculiar to export sales, such as foreign exchange, selection of distributors abroad, relations with export intermediaries, and communications which are often in foreign languages. In general, however, functions are not segregated between domestic and foreign sales. This organizational setup usually works well, but its effectiveness depends largely upon the co-operation which the export manager gets from other functional departments and from top sales executives.

If export business is in large volume, perhaps a substantial share of total business, an export department may be established which performs all functions pertaining to export other than those delegated to specialized agencies. Export becomes a special sales department, largely independent of domestic sales, with further departmentaliza-

tion along functional, geographic or product lines. In many instances, such a special department is located in New York or in some other city with a heavy export business, rather than at the home office of the concern. Companies may go even further if they have both manufacturing and sales branches abroad and establish an export subsidiary company to handle all foreign operations.

It is wise to arrange for specialization in export activities through organizational structure, if the volume of export business is sufficient to make such specialization feasible. In many ways, export business differs markedly from domestic business. Problems of foreign exchange, tariffs and other trade barriers, compliance with export and import regulations, customs administration, ocean shipping and marine insurance, among many others, complicate export business. There are a multitude of small details which must be handled, and handled well, if export business is to be successful. Because of these special problems and the need of specialized personnel, departmental segregation of export business, to the extent that volume permits, is usually considered desirable.

Order or Office Management Department. Much of the routine work in reference to sales is often concentrated in a department under one of the above titles. It handles incoming orders, interprets them to the factory when necessary, and carries on correspondence about them. In addition, the movement of materials between offices, duplicating materials, preparation of forms, some routine aspects of interdepartmental relations, and all arrangements for meetings, sales conferences and conventions, and the entertainment of visitors may be among the responsibilities of this department.

In one particular instance, besides the routine functions just mentioned, the office management department has been given the responsibility for the accumulation of sales records, the preparation of the sales manual and other such guides for reference purposes, and likewise for organizational planning. These functions, it will be recognized, are of a more substantive character than those previously mentioned.

Service Department. In those instances in which service is very important—for instance, if it involves much by way of survey work, demonstration, installation, and after service—a company may segregate sales and service in the home office and to some extent in the field. The service manager may then function much as the sales manager in that he will have the responsibility for selection and training of a service force and for determining the manner in which it will be used. When servicemen work out of field offices, their immediate supervision and control is likely to be under regional or branch managers. The line authority will go from the sales manager down through the field offices to the servicemen, for otherwise the branch

manager would not have full authority and, therefore, could not be held fully responsible for results. Nevertheless, the service department manager can exercise considerable influence through service policy formulation, selection and training of servicemen, suggestions as to procedure in the field offices, and liaison with production departments. If the manager believes that service is not being well handled in the field offices, he always has the opportunity to start remedial action through sales executives at higher levels.

Sales Planning Department. In many organizations, there are sales planning departments which handle some of the functions usually included under advertising, sales promotion, merchandising, and research. As the title suggests, there is more of planning and less of execution than in some other departments. Responsibility may be given for devising and testing plans for extending the uses of a company's products, for introducing new products on the market, and for sales programs and campaigns. Special efforts like sampling campaigns, free deals, and other promotional schemes may be a part of this department's work. In one particular instance, a planning department was given full charge of preparing a company's sales expense budget.[1]

DEPARTMENTAL RELATIONSHIPS

A sound organizational structure does not assure that the relationships between departments will be effective and that disagreements over the functions to be performed in each and the manner of their performance will not arise. Structure and operation are separable; nevertheless, effective relationships are more likely under a sound organizational structure. It is a pattern for the assignment of responsibility and authority, and if these are clearly stated and fully understood, the likelihood of good teamwork between individuals in different departments is much greater.

Intra- versus Interdepartmental Relationships

Relationships are present at two levels, the intradepartmental level and the interdepartmental level. The sales organization itself will probably be departmentalized and these departments must work closely together. Here there are questions pertaining to relationships between the sales department, as such, and advertising, promotion, planning, research, merchandising, export, etc. The sales organization

[1] Additional material on the functions performed by the departments which report to the chief sales executive may be found in an article by F. W. Mansfield, "Decentralizing Sales Management," *Organizing for More Effective Sales Effort* (Marketing Series No. 68) (New York: American Management Association, 1947), pp. 3–18.

and its departmental units likewise have relations with other parts of the business, particularly with production, public relations, personnel, traffic, technical service, and with finance through credits and collections. When top executives assign various functions, traffic, technical service, public relations, and credits and collections may be placed in the sales organization or elsewhere, as they are closely connected with the work of more than one of the broader departmental units. It is difficult at times to determine where they can be placed most logically, in view of both their essential character and the personalities involved. Thus they may involve either intra- or interdepartmental relationships.

In general, the problem of securing co-ordination among departments under major departments, such as sales or finance, is less than among the major departments themselves. The reasons are that all departments under a major department are working together in the attainment of common objectives. The character of the work differs less than among major departments. Furthermore, all of those individuals who participate work under a single executive who is not far distant in the organizational structure. For instance, there may be four or five department heads reporting to a vice-president in charge of sales. While these departments may be broken down to subdepartments, still the vice-president is not far removed from any person who has been given major responsibility. The opportunities for frequent contacts are many in day-to-day operations, the lines of communication are short, and co-ordination is therefore not difficult. Staff and committee meetings provide for the necessary continual interchange of ideas and information on work in progress and on contemplated activities. Disagreements or work at cross purposes come to light more quickly within major departments than among departments. Moreover, adjustment is less difficult. In either case, it is desirable to iron out disagreements and jurisdictional disputes as soon as they appear, for otherwise they become chronic and more difficult to adjust as time goes on.

The relationships between certain departmental units will be commented upon briefly. In those which involve intrasales department units the term "sales" will refer to the department which has line authority over field sales personnel. In others, particularly relationships with production and public relations, the term "sales" refers to the sales organization as a whole.

Sales and Advertising

In the past, it has not always been recognized that advertising and personal selling are simply two alternative means, usually the principal ones, for the attainment of a common objective, that is, sales volume. As a consequence, the advertising and sales departments have at times

been placed on a co-ordinate level but without provision for the co-ordination of their activities. This lack of co-ordination has had unfortunate results.

Advertising, other than direct mail, is not a complete method of attack on the market. Rather it is a forerunner which makes sales contacts less difficult and more productive. Potential buyers know something of the product, the company which makes it, and what it is supposed to do in advance of the salesmen's calls. They may not only recognize the product but also have some preference for it among products of like type. Through advertising to consumers, requests for the product may be made to retailers. Then a sale is less difficult, for the retailer recognizes that a demand is present. His market is in part ready-made through the manufacturer's promotional activities. Advertising also offers conclusive evidence that the manufacturer is accepting some of the burden of selling to consumers, and this is of considerable aid to salesmen when they are attempting to get wholesalers or retailers to purchase and stock an item.

The need for close co-ordination between the two rests on the basic fact that they are mutually supplementary means for securing sales volume. Advertising and salesmen should both stress the same points about the product. Reiteration serves to implant ideas in the minds of potential buyers. In selling to wholesalers and retailers, copies of advertisements which are to appear later are effective selling materials. There are always questions of timing involved. Advertising in advance of calls paves the way for salesmen. The promise of advertising, perhaps in co-operation with dealers subsequent to purchases, may be the most important factor in closing a sale.

In view of these close interrelationships, the salesman must be fully apprised of what the advertising department is doing, for otherwise he cannot make full use of the aid given. In order to secure the proper liaison between advertising and sales, they should both be placed under a single executive, a sales or marketing vice-president, for instance, and means for maintaining close co-ordination of effort should be provided for. Only in this way can all types of promotional effort, including personal selling, be fully utilized, and thus most effective in creating sales volume.

Sales and Service

The relationship between sales and service assumes considerable importance for technical equipment items whether they be used in the factory, the office, or the home. A good example is furnished by the office equipment industry. The machines must be adequately serviced if the buyer is to get the utility from the product. This necessitates adequate training of servicemen, careful scheduling of service calls and ready availability of men when needed, availability of parts,

attention to service costs, etc. Servicing of machines in use is a major activity, perhaps one of equal importance with sales.

Sales and service are very closely interrelated; in fact, the salesman sells utility, that is, what the machines will do for the prospect. The provisions made for service thus become a strong selling argument and, if there are marked differences between competitors in the service provided, perhaps the deciding one in making sales. In contrast, if customers have experienced poor service on a company's products in the past, the difficulties of selling additional units are multiplied. In a sense, every serviceman is a salesman and every salesman is a serviceman. This might suggest that the two functions should be handled by the same group, and they frequently are. For highly technical products, however, there are advantages in specialization which are noted in Chapter XV. It is largely a question of the types of individual required for the two jobs, the extent and type of training needed, and variation in the number and type of calls. In addition, the consumer may be protected in his use of the product by a separate service force. Salesmen are prone to suggest replacement before a machine has actually become obsolete or before it is worn out. When service is segregated and protection of the user is stressed by management, there is less likelihood that too much pressure will be exerted by salesmen for replacement purchases before new machines are actually needed.

The relationship between sales and service necessary for manufacturers who sell semifabricated products to other manufacturers is exemplified by the organizational structure of a glass manufacturer. In the home office there is a technical service department. It is manned by three or four technically trained people who serve in liaison capacity between salesmen and branch managers on one side and the production and technical research departments on the other. While the company's salesmen also have some technical training, sufficient to understand the customer's problems, they have neither the training nor the equipment available to solve these problems. Information is sent to the technical service department which is under a higher-level industrial sales department. If technical service cannot solve the problem, it goes in turn to the technical research people; and a solution, or at least suggestions as to how the problem might be handled, goes back through technical service to the field men and on to the customer. Technical service is thus of direct aid in solving customers' problems and, through the procedure outlined, is productive in creating sales volume and maintaining satisfied customers.

Sales and Production

The relationship between sales and production has undergone a pronounced change in the past few decades. Responsibilities which

were almost wholly in the hands of production executives are now shared with sales executives and to the great benefit of business enterprises. Much of the information secured through marketing research, in fact, serves to guide production activities. All merchandising work, both of a qualitative and of a quantitative character, carried on under sales executives, directly affects production. It is a question of what items to produce and in what varieties, how much to produce of each and when to produce, so that adequate stocks will be available when wanted. Sales records, properly analyzed, furnish information on changes in demand. This information must be relayed to production departments so that the necessary adjustments can be made in production and in inventories. Inventory control and traffic management may be under either production or sales; but, obviously, the problem of serving the customer through making goods available when and where needed is a joint problem with which both sales and production departments are concerned.

The location of responsibility for product development within the business enterprise and the procedures followed were discussed in Chapter II.[2] A number of departments may have something to contribute when decisions on products are in the making and each one should be represented on committees which consider product problems. Often there is a merchandising or a product development department established, likewise an interdepartmental committee, perhaps under the chairmanship of the merchandising department manager but with sales, production, purchasing, and other departments represented. The production department contributes information on manufacturing possibilities, plant availability or limitations, probable costs, etc. Sales contributes a knowledge of the market secured through consumer surveys, product and market testing, sales data analyses, and information secured from customers by salesmen. The promotion people in the sales department may have valuable ideas as to whether a suggested product lends itself well to advertising and other promotional tools. Through recognition that product development is a joint problem and the provision of organizational means for establishing the proper relationships between departments which are in some manner concerned with it, decisions either on new products or on product changes are much more likely to be sound. Moreover, the support of joint decisions through later action in each department is likely to be more willing and more effective if each has had some voice in the decisions made.

Sales and Public Relations

Anything which a company does can, sooner or later, affect its relations with the public. In certain cases, if the action taken is evident

[2] See pp. 19–23.

to many people, the effect is immediate. Witness the reaction at times when large corporations increase their prices on either basic commodities, such as steel, or on products bought by consumers, such as gasoline or milk. Such increases have led in a number of cases to congressional investigations. In other cases, action taken is much slower in its effect on the public; for instance, when policies are adopted which may not become known through implementation for some time. In general, sheer size accentuates the public relations problem, as does continuous contacts with individual consumers, in contrast to industrial or institutional purchasers. When the product line is such that consumers may either be injured because of the nature of the ingredients, such as in medicines and drugs, or through use, as in motor vehicles, the manufacturer must be particularly concerned with public attitude toward his products.

Some parts of the business enterprise are especially related to public relations, notably sales and personnel. That which is done in finance and production, other than in the area of labor relations, is not so evident or immediately of public interest. However, those activities usually grouped under a sales department, essentially competitive ones, are, for the most part, evident to many people. Advertising and other promotion, pricing, relations with distributors and dealers, handling of complaints and claims, and performance of products all have their public relations aspects. They can be handled in such a way as either to promote or to jeopardize good relations with the public.

In advertising and other promotional activities, there are many things which may be destructive of public confidence. A lack of truth and good taste in advertising copy; sensationalism; unbelievable claims for products, often advanced as the results of research work; and disparagement of competing products all smack of sharp practice. The public is increasingly critical of advertising, and this criticism is based in no small part on what might be termed the "excesses" in its use. Public relations can be substantially improved by disseminating information on the economic effects of advertising and by attempts on the part of industry as a whole to eliminate those practices to which the public rightfully objects.

Research directed at consumers has its public relations aspects. The late Henry G. Weaver, of General Motors Corporation, often stated that his customer research studies were in part to create goodwill for the Corporation. Evidently they brought to light many individuals who, for some reason or other, were antagonistic. Through giving individuals the opportunity to express themselves about the Corporation and its products and through subsequent correspondence, the sore spots in public attitude toward the Corporation were "mended," as Weaver expressed it. Moreover, criticism was often forestalled because the consumer was informed as to why some feature desired on

a car could not be added, perhaps for reasons of safety. Thus bad public relations may well be the product of ignorance as well as questionable practices. If, through research and publicity, real understanding is created, public relations are bound to improve. Such understanding is particularly necessary in a democracy, for an accumulation of sore spots may eventually lead to regulatory action by government.

The time has come when pricing cannot be done, at least by large corporations, without a weather eye to its possible effect on public relations. Price increases in the past few years have often provoked extensive adverse comments in the press and by public officials, and investigations. Business profits are also watched closely, publicized widely, and often severely criticized, especially by labor unions. In periods of rising prices, profits seem to be much larger than they actually are in view of needed replacements of machinery and equipment. In the future, prices, profits, and wages will undoubtedly be interrelated in the public mind more than in the past, and management must think of price changes along more comprehensive lines. It is now altogether possible that a price advance, if it is publicized and arouses adverse comment, may have a negative rather than a positive effect on a company's profits.

Relations with customers are, in fact, public relations, for each customer is a center from whom favorable or unfavorable comments emanate to a wide circle of business associates and friends. If customers habitually say that a certain company is "a nice company to do business with," that its representatives are courteous and helpful, and that promises made on deliveries, etc., are kept in so far as possible, public relations are likely to be good. In contrast, if dealers are openly critical of a company's policies and products in speaking with customers, in time sales will diminish, even though the dealers continue to handle the products. While such criticism may seem unlikely, it is not at all unusual, particularly when competing products are handled.

Good customer relations are a product of many things. Prompt handling of complaints, claims, and adjustments on a reasonably generous basis is most helpful. These may be based on warranties, but a legitimate complaint on a product should be given consideration and adjustment made whether or not a warranty has accompanied the sale. Salesmen's promises to dealers should be fulfilled by the company. Perhaps the salesmen should not have made them initially, but once they have been made, every effort should be put forth to comply.

Nothing is more destructive of customer goodwill than to have one department of a business tell him one thing while another department tells him something which is contradictory. For instance, a salesman may tell a customer that he can have an additional thirty days to meet an invoice. The credit department in the home office may demand

immediate payment. The salesman may say that delivery can be made the next week. A letter from the home office may say that delivery cannot be made short of three weeks. In each instance, there has been a failure of the company to handle the customer well. There has not been the proper liaison and understanding between field men and home office people and the result has been productive of confusion, customer irritation, and undesirable public relations.

Finally, public relations are influenced by three other factors, the basic quality of a company's products, the position of a company among its competitors and other business concerns, and the attitude of employees. If a company puts out an excellent product, if improvements are made frequently, these facts become known to the public and cannot help but influence public attitude favorably. It is well likewise to have and merit the respect of competitors and the business community. Public relations are in part intercompany and interindustry relations. Around the location of manufacture, the reaction of its employees toward a company is largely determinative of public attitude.

Sales—Credit and Collections

The need for co-operation between sales and credit becomes evident when it is realized that both departments are concerned with relations with buyers. One is responsible for making the sale, while the other determines whether an order which involves credit shall be accepted and on what payment terms, and sees to it that payment is made. Because of this duality in handling customers and too much stress on dissimilarity in objectives, sales and credit departments have often been at loggerheads. They have frequently failed to recognize their mutuality of interest in sound and friendly relations with customers. Both departments should have as their major goal the maximization of profits, over the long run as well as in any particular year. Credit losses can be either too low or too high, and either position may reduce profits.

Top management has often been inconsistent, demanding maximum sales and very low credit losses at the same time. Obviously, too strict a policy on credit extension and collections can substantially reduce sales. Too often, likewise, management has stressed the "watchdog" role of the credit department rather than the mutuality of interest between sales and credit and the necessity of the departments' working closely and harmoniously together. If, because of shortsighted management, the attitude of the credit department is that the integrity of the accounts receivable figure should be preserved at any cost in sales volume, and the attitude of the sales department is that sales should be made even if the buyer's credit is highly questionable, the two depart-

ments will not get along well. In contrast, each department can help the other to do an acceptable job and place as few hindrances in the way as possible.

A strong argument can be made for placing credit in the sales department. Salesmen are often given responsibility for securing credit information and for collections. Many people feel that customer relations should be centered as much as possible so that there is less opportunity for contradictions in policy and action, and for friction with customers. Yet credit and collections are usually under finance, perhaps to facilitate the management and control of working capital. Undoubtedly, in many instances, there is also the feeling that a check of credit extension by sales personnel is needed, and that an unbiased judgment on requests for credit will not be made by people whose immediate interest is in an increase in sales volume. Whether the credit department is under sales or finance, there will be the need of co-operation between the field selling forces and the credit department if acceptable results are to be attained.

Credit can help sales personnel by making all the information on customers' financial standings, balances owed the company, and payments on account available to salesmen. A salesman fully informed is likely to suggest neither additional credit nor deferment of payments beyond their due dates, if such action is not warranted. Credit can also help sales by being forehanded in its work. If the salesman can be forewarned that a certain prospect is not a good risk, time and effort will not be used to secure an order from him. What particularly irks the salesman is to work hard on an order and then have the credit department turn it down. Co-operation between sales and credit in the planning of customer solicitation is helpful. If the sales department assembles a list of new potential customers, there is no reason why tentative conclusions regarding their credit position cannot be reached by the credit department in advance of solicitation.

The disagreements between sales and credit departments often spring from *how* things are done, rather than from *what* is done. Both in reference to credit extension and collections, customers can be irritated; and sales can be lost, often needlessly, by an undiplomatic approach. A tactful approach, one based upon the idea that there may be special reasons for credit extension or for failure to make payments on time, which should be taken into consideration, may preserve goodwill and, perhaps, an account. Even when additional credit is turned down or payments are requested, the account may not be lost if it is not done in a pre-emptory manner. A special investigation by the salesman who knows the customer best may be desirable and productive of continued good relations. In this connection, it should be noted that a good account—one which continues to buy year after year—is a valuable asset to any concern. A little financial help to the

right people at the right time, even though it embodies some risk, may preserve accounts which become increasingly valuable as time goes on.

The credit department must rely on the sales department for getting credit information in the field, particularly about small accounts unlisted in credit directories; for appraising people who ask for credit, both their personal characteristics and their business situations; and often for making collections. Sales personnel can help the credit department by taking these tasks seriously and performing them to the best of their several abilities. If there is the proper relationship between the two departments, these tasks are likely to be performed acceptably.

Sales and Personnel

Personnel management is a function which pervades the business enterprise. At times, it is centralized in a major department which serves most departments, other than production, in an advisory capacity and in routine matters such as handling employee's records, investigations of prospective employees, and the conduct of tests. These services, and others of like type, are helpful to sales executives who have the responsibility for recruiting, selecting, training, and supervision of field managers and salesmen. In large companies, nevertheless, there is likely to be a personnel department in the sales department structure. While much of the personnel work of sales could probably be handled in the major department, many sales executives would doubt whether the work would be handled successfully unless they participated actively. One reason is that personnel departments, in the past, have dealt mostly with factory labor. Another reason is that the management of sales personnel is the principal activity of many sales executives, and they dislike having some phases of it delegated to a centralized department. Consequently, most of the management phases of sales personnel work are likely to remain under sales executives, although many good suggestions may come from the major department, and routine work may be delegated to it.

Appraisal of a Sales Organization

Any organization can be appraised in relation to its internal structure and the interrelationships of its various parts or on the more pragmatic basis of the results which it attains. If the pragmatic test is used and that only, then any organization is sound if it works well. However, under the right circumstances—for instance, those of exceedingly strong demand for a company's products or a quasi-monopoly position—results may appear satisfactory although they

are not. It is true, also, that particularly effective personnel may produce good results even when the organization with which they are connected is unsound structurally and co-ordination between departments is not good. Strong personnel will probably see that organizational defects are corrected. Moreover, when an organization appears unsound but is successful, further knowledge often leads to the conclusion that it is outstanding in some ways, perhaps in interdepartmental relations or in research and planning. This strength may more than counterbalance ineffectiveness elsewhere. While both of the two bases may be used for appraisal—first, of what an organization is; and, second, of how it apparently has performed—the first of these is the more basic approach, although the second surely has merit.

Questions pertaining to appraisal from the internal angle have been well stated by Ewing W. Reilley, who says that most of them are based on concepts as well known as the Ten Commandments but, like them, frequently broken. They are as follows:

1. Have the objectives and policies of the organization been defined?
2. Have all essential activities been specifically provided for?
3. Are responsibilities properly grouped to achieve the most effective results?
   a) Have activities been so classified as to facilitate their supervision by one individual?
   b) Have the responsibilities assigned to any one person become too numerous and complex for him to handle them effectively?
   c) Have any functions been assigned to more than one unit in the organization?
   d) Wherever possible, does each organizational unit have responsibility for some completed unit of work?
4. Are the lines of authority and communication between individuals best adapted for effective supervision, co-ordination, and control?
   a) Do executives have more subordinates reporting to them than they can supervise and co-ordinate effectively?
   b) Are the number of levels of authority kept at a minimum?
   c) Do some persons report, on a line basis, to more than one superior —or to none? Does each member of the organization know to whom he reports and who reports to him?
   d) Is horizontal contact authorized and encouraged within approved policies?
   e) Has adequate provision been made for the co-ordination of related activities?
5. Is responsibility and authority properly assigned and defined?
   a) Has authority been delegated to the greatest extent possible, consistent with necessary controls, so that functions are co-ordinated and decisions made close to the point of action?
   b) Are the distinctions between line and functional authority and staff work recognized?

c) Is the responsibility or authority of each executive in his relationships with other parts of the organization clearly defined?
d) Is responsibility matched by authority?
e) Do top executives exercise control through attention to policy and matters of exceptional importance rather than through review of the routine operations of subordinates?
f) Have the organization plan and the responsibilities, authorities, and relationships of executives been clearly defined in written form?

6. Has the organization been kept as simple as possible?
7. Has the organization an ideal plan toward which it is working?
8. Is some member of top management responsible for continuous attention to organization planning?
9. Is the chief executive "organization-minded" and does he maintain organization discipline?
10. Do all executives understand and accept the organization plan?[3]

These tests, particularly the first five, will also serve as a brief summarization of the early part of this chapter. The latter ones require brief explanation. In regard to Nos. 7 and 8 the author indicates that no organization quite meets the desires of responsible people within it. The reasons why nothing is done are usually clear to those executives who would make changes. They may have an improved plan in mind, perhaps a more logical one; but because of the fact that the organization has grown up around personalities who are still present and a loathness on their part to countenance change, particularly if it lessens their authority, the plan is not put into effect. Any forward-looking group will have ideas in mind on desirable organizational changes when existing conditions permit, probably when certain people retire. Plans are not likely to be at hand when needed, however, unless some member of the top-management team is made responsible for organizational planning, and sees to it that someone under his jurisdiction is continuously concerned with the problem.

The last two points, Nos. 9 and 10, are closely interrelated. If executives *do* understand and accept the organization plan, particularly if they have participated in building it, they are much more likely to be "organization-minded" and to maintain organizational discipline. There is nothing much more important in the functioning of an organization than the maintenance of discipline, particularly by top executives. If lines of authority and responsibility are disregarded by them, they are likely to be disregarded further down in the organization. The common habit of by-passing department heads and giving orders directly to the people under them, rather than going through

[3] Ewing W. Reilley, McKinsey & Company, "Organizing and Developing the Management Team," an address at conferences sponsored by the Bureau of Industrial Relations, University of Michigan, Ann Arbor, 1950.

them, is very destructive of morale. Top executives should be the leaders in the enforcement of organizational relationships.

Another basis for appraisal of an organization from an internal angle is the extent to which the organization provides for research and planning, and for effective co-ordination of activities of this sort among the various departments. Research activity of today is, in a very real sense, provision for tomorrow. If new product development in all of its various phases, analysis of markets, research on selection and training of salesmen and on organization itself is provided for and stressed in an organization, the likelihood that it will be successful in the future is considerably enhanced.

Appraisal of an organization through the results which it attains leads to an analysis of sales volume, sales costs, competitive position and noticeable trends in it, mortality of profitable accounts, the number of new accounts secured, and other such factors. If the situation looks favorable on most of these bases, the conclusion may be reached that a company has a good organization. But, as noted previously, the question of the causal factors involved is a very pertinent one. Under very favorable circumstances, any organization may appear effective.

Other tests of a very general character—tests perhaps more of personnel policy than of organization as such—are whether there is a low personnel turnover from preventable causes, and whether there is adequate development of executive timber from within. In a good organization, one in which personal initiative is encouraged and additional responsibility and authority are given when men are ready for them, an organization will not have difficulty in withstanding the loss of key men who have carried much of the burden of management in the past. If every man accepts the responsibility of training his successor, the necessary continuity will be provided, likewise the flexibility for meeting new conditions, which is needed in any business enterprise.

Final Comments

Finally, in the appraisal of the sales organizations of established companies, it should be recognized that they are the result of a long period of growth. They may appear illogical to the outsider because they are an expression both of personalities with certain levels of ability, training, and experience, and of ideas of what an organization should be. At some points, the organization form may have yielded to personalities; at other points, to firmly held ideas based upon logic.

It is not at all uncommon to find certain departments handling types of work which appear foreign to the work which such departments customarily handle. The reason is that responsibility is usually

given to those who can take it. A particularly strong department often takes responsibilities from the weaker ones. It is easier to make reassignments of work than to strengthen a weak department. The reassignment may be thought of as temporary, but it may persist over a considerable period. While this may be an explanation of illogical grouping of functions in departments, any management which temporizes too often and too much along these lines will find itself with a distribution of functions which makes little sense to anyone and handicaps effective operation. Organizations are usually stronger if they are based upon principles, rather than personalities. Before any assignment or reassignment of functions among departments is made, top management may well ask itself whether it is temporizing or acting on the basis of accepted principles.

It is difficult to determine why some organizations are effective and others are not. At times, ineffectiveness can be laid to structural defects and unwise delegation of authority and responsibility; but, more frequently, the ineffectiveness is due to the fact that the people in the organization do not work well, and thus productively, together. Under such circumstances, the most likely explanation is the lack of informed and intelligent leadership by top executives. In some organizations, decisions apparently are reached by the democratic method, through which all informed and interested personnel are urged to express themselves freely. If there are differences of opinion, the views of higher executives must be allowed to prevail, but executives who are leaders in the best sense would rather convince others or, perhaps, be convinced that a certain contemplated action is desirable or undesirable than to give orders. Morale, under such circumstances, is likely to be high. Mutual respect will lead to good teamwork and effective handling of the sales task.

REVIEW AND DISCUSSION QUESTIONS

1. What criteria would you suggest for guidance in determining the proper location of a marketing research department in an organizational structure?
2. What are some of the points within the organizational structures of business concerns at which strains and stresses are likely to develop unless means are provided by management for the necessary co-ordination and control?
3. In general, the problem of securing co-ordination among departments, under major departments such as production or sales, is less difficult than among the major departments themselves. Why?
4. Why must business concerns be more aware of their public relations problems than they were in the past?
5. What are the functions of sales management which are directly related to the broad problem of public relations?

6. What are some of the outward indications of the failure of a concern to handle its public relations problems effectively?
7. How would you define "morale"? Suggest means by which a high morale within a sales organization might be attained.
8. The following objective criteria have been used to test the effectiveness of sales organizations: (*a*) an increasing proportion of total industry sales; (*b*) low mortality of accounts; (*c*) low personnel turnover from preventable causes; (*d*) development of executive timber from within; (*e*) continued effectiveness when key personnel are lost; (*f*) decreasing percentage of sales expense; and (*g*) emphasis on planning and research. Are these criteria acceptable for this purpose? What other criteria would you suggest?
9. A recent study by the General Electric Company resulted in the adoption of a marketing-manager plan for certain subsidiary units. The marketing-manager, often called a "vice-president in charge of sales or distribution in other concerns," is expected to place emphasis on sales planning and marketing research, as well as upon selling and field sales organization. The responsibilities of the marketing manager also include control over many activities often placed in other departments. For instance, he has control over pricing, and over product planning, production scheduling, and finished goods inventories often handled by production departments. Engineering services, such as those comprehended in survey work, and other types of service are also under the marketing-manager. He reports directly to the president. This reassignment of functions has been called a revolutionary change in organizational structure.

   What justification can you discern for the suggested functional assignments? (Adapted from "Marketing Men Take Over in GE Units," *Business Week*, June 24, 1950, pp. 3 ff.)
10. One of the large furniture manufacturing companies produces furniture for schools, theaters, churches, and transportation equipment; also folding chairs. There are product managers over each of these lines with the exception of folding chairs, which is handled by the theater product manager. These managers are under a director of products who is in co-ordinate position with a field sales manager, an advertising manager, a merchandise manager, and a market analyst. All of these executives report directly to a vice-president and general sales manager.

    The field sales manager directs and controls the field sales organization in attaining the company's marketing and distribution objectives. The United States has been divided into six divisions. The managers of these divisions are directly under the field sales manager. They, in turn, are over the branch managers and salesmen, and exercise advisory control over the independent distributors in their divisions. The merchandise manager acts in a staff capacity to enhance the profit opportunities of all branch operations. Neither product managers nor the merchandise manager exercise any line authority over field sales personnel, but they do influence them indirectly through correspond-

ence, through contacts at sales meetings, and through the vice-president and sales manager.

The company sells through independent distributors, through direct sales representatives, and through company-owned and -operated sales agencies. Territories are generally clearly defined so that little overlap exists for sale of specific product lines. Some sales help is furnished distributors by direct representatives. The company-owned branches carry both company merchandise and that produced by other manufacturers, some of which is directly competitive with the company's manufactured products. Sale of company products accounts roughly for one third of their volume.

On the basis of the information given, prepare a sales organization chart for this company. How would you classify the company's sales organization? Indicate what responsibilities, other than those mentioned, might be assigned to the various organizational units.

What difficulties might arise from the dual approach to the wholesale distribution function? On what bases may the company-owned sales branches be justified?

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Chapter XIV

PLANNING THE SALES PROGRAM

We now turn to planning the sales effort per se, as distinguished from the sales organization through which it is accomplished. Planning the sales effort is concerned with problems of varying importance. They may be of long-range, intermediate, or short-range character. The general nature of the sales effort is largely determined by the selection of products for manufacture and sale, the selection of a channel or channels of distribution, through decisions on the type and size of the market which will be covered, and by the formulation of service policy. For instance, a sales manager may say, "We cover the national market," or, perhaps, "It is our policy to sell only to the wholesale trade." Behind such statements there is long-range planning. Sales planning is also involved when a minor executive decides that a certain salesman should make more frequent calls on a given customer. Although such decisions form the groundwork for effective selling in the field, still each decision is of relatively little importance. Between planning for major policy and planning the work of an individual salesman, there are many gradations both as to importance and duration. After major sales policies, in a descending scale on the basis of these characteristics, come sales programs, campaigns, contests, and other stimulatory measures, and finally the planning of individual sales effort.

Each of these activities require planning effort, but the planning must be done in reference to the activity of higher order. In other words, efforts of lesser importance and shorter duration must be planned in view of long-range decisions involving major policies. Those who are responsible for planning in the lower ranges must do so within a more or less rigid pattern. Direction of salesmen or planning of promotional material is circumscribed by the nature of the sales program or campaign, while the latter are, in turn, circumscribed by the major sales policies of the company. This, of course, is highly reasonable, for broader plans foresee the function of each participating unit. Only by virtue of the broader plan can there be co-ordination of sales efforts to attain given objectives.

Long-range planning which finds expression in sales policies is considered throughout this volume. Short-range planning, particu-

larly in reference to control and supervision of field managers and salesmen, is considered in the section on management of sales and service personnel (Part VI). In this chapter and the one which follows, attention will be centered on planning in the intermediate range, particularly on sales programs and sales campaigns.

NATURE OF THE PROBLEM

The nature of program planning can be explained most acceptably by a somewhat theoretical discussion. The over-all objective is reasonably clear. Every sales executive wants a selling program which includes the "right" proportions of personal selling, advertising, other sales promotion, service, and other means which may be available to market his company's products in the desired volume at minimum cost, not just immediately but over the years. Only through minimum cost in the performance of marketing functions can profits be maximized. Thus it is initially a problem of synthesis—to combine factors in such a way that distribution will be achieved at low cost. Later, it is a problem of analysis—to determine to what extent the various elements in the sales program have contributed to sales volume. The objective of such analysis is to aid in the making of more rational combinations in the future.

Difficulty of the Task

The difficulty of the task is in part an outgrowth of the number of alternatives present. When there are many alternatives, there are a multiplicity of possible combinations. In the advertising field alone, there are seven principal media—magazines, newspapers, trade publications, outdoor, direct mail, radio, and television, and many possible variations in most of them. There are many other means of promotion which may also be used, perhaps in lieu of advertising. Personal selling and service can also be subdivided on the basis of type. Perhaps only one means to make sales will be used—for instance, direct mail advertising or personal selling—but by far the more usual practice is to combine many elements in an effort to realize upon the peculiar abilities of each to accomplish certain specific objectives.

The task of choosing the elements of a program wisely is further complicated by the fact that the elements are not particularly stable either as to costs or results. The cost of each means in relation to its probable contribution to sales volume may change substantially. The rise of television, for instance, greatly affected the results obtainable from radio programs. As television improved, its productivity in the

selling process changed appreciably in relation to its cost. Moreover, in any multivariable problem such as this, the effect of any one factor on the over-all result—in this instance, sales volume—is difficult to determine. In some instances, there is no possibility of determining with full assurance just what a certain factor, such as institutional advertising, contributes to sales volume. At least it must be done through deductive reasoning, rather than through quantitative measurement. Difficulties such as these add greatly to the task of choosing means for affecting distribution. Only through the testing of sales expenditures wherever feasible, in view of its possibilities for guidance, its cost, and the time which it takes; the teaching of experience; and good judgment based upon all the pertinent information available, can sales executives hope to plan sales programs with reasonable effectiveness.

Lack of Ready-Made Solutions

It might be assumed that the problem of combination or "mix" of marketing elements would become somewhat standardized for particular types of product and that a manufacturer could thus find guidance in the past experience of others. If a manufacturer of breakfast cereals or soaps, for example, were known to be successful in terms of profits, it might be assumed that he had combined the various types of advertising, personal selling, etc., wisely and that he should therefore be emulated. Apparently, however, there is not a great deal of uniformity in combinations, even among manufacturers of like products. There is much evidence, nevertheless, that in given situations some combinations are much better than others.

The reasons for variation in the combinations made are: first, the number of alternatives and thus the number of possible combinations; and, second, the fact that companies may differ markedly even though they are in a certain industry. Their sizes, financial resources, policies, organizations, and the experience and calibre of their executives may differ and all of these have some bearing on the choice of means for making sales. Imagination and resourcefulness of sales executives in devising new means and new combinations are important conditioning factors. Even though other companies did know exactly what was done by a certain concern to make sales, there would always be some question as to whether the effort could be duplicated by another organization. However, manufacturers infrequently know the patterns of expenditure of their competitors or even those of other concerns. This is an area in which there is little exact information available. Manufacturers are loathe to reveal their marketing expenditures other, perhaps, than an over-all "cost of sales" figure. That

TABLE 6

DISTRIBUTION COSTS OF 312 MANUFACTURERS*

Expense Items	Shoes	Hardware	Drug and Toilet Articles	Machinery and Tools
Direct selling costs	8.7	9.1	11.3	14.6
Advertising and promotion	3.7	2.2	18.4	4.4
Transportation and warehousing	2.2	1.9	3.7	1.8
Credit and financial	4.2	3.2	2.6	2.3
Administration and other	2.4	2.5	2.8	2.7
Total	21.2	18.9	38.8	25.8

* From *An Analysis of the Distribution Costs of 312 Manufacturers* (New York: Association of National Advertisers and the National Association of Cost Accountants, 1933), pp. 64, 106.

which is needed, in contrast, is a complete pattern of expenditures, perhaps over a number of years, and the justifications, as the sales executives see them, for each expenditure item.

Only slight progress in securing data on manufacturers' marketing expenditures has been made in the last two decades. In 1933 a study was made of the distribution costs of 312 manufacturers. While the sample may be questioned, as well as the accuracy of the data in view of different expense classifications, these data were then considered of some significance. They are shown in Table 6.

Additional data were assembled in 1940 by the Federal Trade Commission.[1] Data on expenditures to total net sales were secured from 2,712 important manufacturers in 86 general commodity lines, covering 91 industry groups. Data were secured on a number of expenditures, among them, for advertising and sales promotion, for selling and delivery, and for administrative and general office.[2] In the case of advertising, data were presented on the "Number of manufacturers reporting the use of specified types of advertising and percentages of total advertising expended for each type by 548 manufacturers, grouped by commodities, 1939."[3] For instance, for meats, 24.9 per cent of advertising was in national magazines; 23.8 in newspapers; 23.4 in letters, folders, etc., for dealers; 8.5 in radio; and the balance in other types. While these data do not show the complete pattern of selling expenditures, they are a step in that direction. They are still informative, although new types of advertising, notably television, have appeared.

Some additional data on the advertising expenditures of large concerns for national advertising in newspapers, general and farm maga-

[1] *Report of the Federal Trade Commission on Distribution Methods and Costs*, Part V, Advertising as a Factor in Distribution (Washington, D.C.: U.S. Government Printing Office, 1944).

[2] *Ibid.*, Table 4, p. 11.

[3] *Ibid.*, Charts I and II.

zines, and network radio can be assembled from data compiled by the Bureau of Advertising; American Newspaper Publishers Association, based upon computations by Media Records, Inc.; and by the Publishers Information Bureau. The Bureau of Advertising assembles data on advertising in newspapers, the Publishers Information Bureau on advertising in magazines and radio. Data on advertising in trade papers can likewise be secured from Brad-Verne Reports, issued annually by *Printers' Ink*. However, these data do not cover local newspaper advertising, radio programs on local stations, or direct mail. In the past, advertising through television has not been included, but data on it is now available. As an illustration, Proctor & Gamble Company in 1948 spent $8,373,006 in newspapers, $5,048,111 in general and farm magazines, and $18,199,384 in network radio. Some concerns such as Sears, Roebuck & Company and the Firestone Tire & Rubber Company place much of their advertising in local newspapers. Therefore, the data available to the public furnishes no indication of the extent of their advertising, nor of their advertising patterns.

The data available on manufacturers' marketing expenditures, even in the field of advertising, leave much to be desired. They are neither fully complete nor comprehensive, although the data available on advertising is, in all probability, accurate. Even though data were collected on other types of expenditure, it is doubtful whether they would be meaningful in view of differences in expense classifications. While such information might be helpful, it would not provide a ready-made solution to the problem of combining factors to produce low-cost sales volume. Thus every concern must go through the process of selecting sales methods and combining them into a sales program.

We now turn to a discussion of the selection and testing of sales methods. Our discussion of such a large subject will, of necessity, be circumscribed, but at least some indication will be given of the basis for decisions by management on sales methods. As program planning finds monetary expression in sales expense budgeting for many companies, this subject will then be considered. It will be followed by a discussion of program planning and expense budgeting for new products.

THE SELECTION AND TESTING OF SALES METHODS

With the nature of the problem of program planning in mind, we now turn to bases for selection of sales methods. Here we are concerned primarily with what the distribution cost accountant refers to as order-getting costs rather than with order-filling costs, although both are a part of the sales program as broadly conceived. The order-getting methods might be classified as follows:

- Personal solicitation or personal selling
  - Solicitation of orders
  - Missionary selling
  - Public activities of sales personnel
- Advertising and other promotional methods
  - Advertising
    - Publication advertising
    - Radio and television
    - Direct mail advertising, including promotional correspondence
    - Outdoor advertising
  - Other promotional methods
    - Warranty and service
    - Shows and exhibitions
    - Free deals and allowances
    - Samples
    - Premiums
    - Dealer helps, nontechnical service
- Miscellaneous
  - Reciprocity
  - Competitive bidding
  - Deferred payment schemes, consignment sales
  - Leasing
  - Guarantee against price decline

Few classifications are all-inclusive or exclusive in the sense that each item is totally unrelated to others which are otherwise classified. Warranty and service may be classified under product planning or as here under promotional methods. Shows and exhibitions are often vehicles for personal solicitation. While free deals, competitive bidding, deferred payment schemes, leasing, and guarantee against price decline are promotional, for they all may aid in securing orders, they are in part methods of pricing. Perhaps this is another way of saying that all pricing is, in a sense, promotional because the manufacturer may rely upon price, rather than upon other promotional methods, to make sales. While the items under this classification could be further broken down, an idea is given of the factors from which the manufacturer must choose in making his combinations for the purpose of securing sales volume.

From these various alternatives for getting orders, marketing executives must choose one or a number in combination for use. As mentioned before, it is a difficult task for there are so many alternatives and thus so many possible combinations. Moreover, these factors are stable neither as to cost nor as to the results which will be attained by their use. Undoubtedly they interact upon each other; for instance, a certain amount spent on missionary sales work may be more productive of sales volume if used in connection with radio or television than with advertising in newspapers. But, despite these diffi-

culties, decisions have to be made on marketing expenditures. Here we are concerned with how they are made by marketing executives.

Bases of Decisions on Sales Methods

At the outset, it should be stated that this is an area of managerial decisions about which relatively little is actually known. When asked about the bases for decisions of this character, sales executives are prone to state that they are made on the basis of past experience; that certain methods apparently work while others do not, at least for a particular company; and that new methods or combinations are used frequently in the hope that a more effective, lower-cost combination can be discovered. They freely admit that their marketing programs could probably be improved, but are somewhat at a loss on how it could be done. Usually, however, they have something new in mind which they expect to try later.

When sales executives rely upon past experience, it can be either their own or that of others. Everyone relies to some extent on the past experience of others obtained through personal contacts, publications, or by direct observation of what others do. In particular, businessmen are aware of what their competitors are doing to make sales and seek information as to the results achieved. A sales executive's own experience leads him to be wary of certain methods, enthusiastic about others. He senses that certain methods only have favorable results under particular conditions. Past attempts to measure results from expenditures—let us say from radio campaigns or free deals—are also a part of his experience. His deductive reasoning in the past about the probable success of certain methods, even though no attempt was made to measure results, may hold him in good stead. All of these are within past experience. They serve as a basis of reference when new decisions must be made.

While past experience must be the principal basis of many decisions, too great reliance upon it as a substitute for present analysis should be avoided. All too frequently, sales methods habitually used in the past are not even carefully reviewed. Their necessity is taken for granted. In a dynamic field, however, such as that of selling, long-continued use of a method or procedure should not give it inviolability. Rather, the longer certain policies are followed, the longer procedures or methods are used, the greater is the likelihood that they are no longer effective or not as effective as something else with a like cost or a lower one. Perhaps they have outlived their usefulness; at least they should be reviewed each year to determine whether the expense involved continues to be justified. Imagination and resourcefulness on the part of executives may bring forth substitute means for accomplishing the same objectives at considerably lower cost.

In the planning of a sales program the sales executive "plays it by ear" to some extent but the results may be surprisingly good if he is an able, observant, and imaginative person, and if, in addition, he attempts to measure the results of expenditures wherever such action appears at all feasible. In addition to post-testing of expenditures, there are always some possibilities in pre-testing, e.g., of advertising copy or of new products. Market testing of new products is, in part, testing of marketing expenditures for them. Here the sales executive is not basing his action on experience but on preliminary tests. As noted above, however, any test which is made enriches experience.

Businessmen as a group are beginning to have more faith in marketing research than formerly as a means for pointing the way toward cost reduction. Some executives apparently have too much faith for they expect too much from marketing research in view of its recent development, the questionable character of many of its techniques, and the lack of training and the inexperience of many of its practitioners. Marketing research, nevertheless, can be of invaluable assistance in the choice of means for securing and handling orders, as we shall see shortly.

Still, the bases for choice of sales methods, in most instances, are not entirely clear even to the executives who make them, and the reasons why certain combinations are effective or ineffective are difficult to deduce. Yet there is evidence of a wide range in effectiveness of performance. When performance is poor, it is likely that those in positions of authority have had too little experience upon which to draw, that they are handicapped by insufficient or poorly analyzed records, and that they are not sufficiently aware of the help which can be secured from marketing research.

Selection and Testing by Type of Method

Many of the methods used to secure sales volume are discussed at length in other courses of the marketing curriculum, particularly those in advertising. Still others are considered in various sections of this volume—for instance, the one on management of sales and service personnel (see Part VI). Warranty and service, because of their special characteristics, are considered in a separate chapter in this section. Nevertheless, in order to examine this question of selection further and, particularly, to indicate the possibilities in testing sales expenditures, each class of method will be considered briefly in turn.

Personal Solicitation

The testing of sales expenditures for solicitation can be approached in a number of ways, among them through analysis of internal sales

records, distribution cost accounting, and measurement of salesmen's performance. Whether funds made available for this purpose are used wisely is in part a question of the effectiveness of the salesmen employed, and in part one of the assignments which they are given. Solicitation funds are not well used by poor salesmen; nor are they well used if salesmen are assigned to territories which cannot produce sufficient volume to permit profitable operation—excluding, of course, developmental work. Thus the problem of testing is one of measuring sales performance, followed by analysis to determine whether failure to perform satisfactorily is the fault of the salesman himself or of the conditions under which he works. For instance, suppose that a particular salesman's salary plus expenses was 30 per cent of his sales volume, whereas the average figure for all salesmen was 20 per cent, and that 30 per cent was too high for profitable operation. The conclusion may be reached that the salesman is ineffective and should be replaced or, in contrast, that there is not sufficient potential volume in his territory, that it is too greatly scattered, or that competition is too well entrenched to permit of profitable operation.

Through sales analysis, information is made available on the distribution of sales over the product line by type of buyer, location of buyer, size of order, etc. In other words, the pattern of sales through the determination of various interrelationships between a number of variables can be shown. Armed with this information, distribution cost accountants can relate costs to volume figures and arrive at conclusions as to the relative profitability of sales to different territories, types of customer, and sizes of order. While the task is a somewhat more difficult one, sales costs can also be determined for various types of product. Whether a territory is yielding profits depends upon what is being sold as well as how much is being sold; also, upon how much is being sold during each call upon customers. Testing of sales expenditures by these means may lead to lower solicitation costs, both by improving the sales force and by dropping unprofitable territories, customers, or products. Often analysis points toward less frequent solicitation or other means, such as direct mail advertising, whereby sales volume can be secured at lesser cost.

Personal solicitation also includes missionary sales work. The primary objective is to promote the product but not necessarily to take orders. Detail men in the ethical drug trade call upon doctors and hospitals in order to interest them in new products so that they will prescribe them for patients. In the case of grocery products, other company salesmen or the salesmen of wholesalers will solicit orders later. The potential buyer is made familiar with the product, he is told of its attributes and advantages in use, and of the promotional activities which will be put behind it. Missionary salesmen may ar-

range for the use of displays and other dealer helps and may actually install them if the dealer is then handling the product. If it is a new product, he may outline introductory offers and actually take orders which are then routed through wholesalers.

There is some possibility of testing the results obtained from this sort of effort, particularly when it is used intermittently to capitalize on sales opportunities through more intense coverage of a market. Missionary salesmen may also be used to recapture a market position which has been lost because of aggressive action by competitors. As a preliminary test a territory could be selected, a time schedule of calls worked out, the work of missionary salesmen outlined, and estimates made of the anticipated increase in sales volume and of its effect on profits. After the work was done, it could be checked closely on its costs and results. Care should be taken to determine whether the plan was carried out acceptably and whether the results were, in fact, attributable to the missionary sales work. The exact conditions under which the test was made should also be noted carefully. If it was successful in this one instance, it should not be implied that it would be under other conditions. Still, a test of this sort will give some idea of what can be expected from the use of funds for this particular purpose.

Advertising

The objective in the selection of media is to get the advertising message to as many potential buyers at as low a cost as possible and to have the message of such character that it will influence them toward purchase. The potential buyers must first be clearly identified by type or types and their relative presence by territories determined through marketing research. This is done in studies of market potentials, as indicated in earlier chapters. With information on the type of potential buyers, where they are located, and on the claims of media regarding the characteristics and number of their hearers, viewers, or readers—perhaps verified in some manner as to number, e.g., by the Audit Bureau of Circulations—decisions can be reached on which medium or media in combination will furnish the best and lowest cost coverage. Much of this work is done by advertising agencies as a service to clients.

Bases for Selection of Media. The bases usually stressed for the selection of media are those of selectivity, flexibility in use, opportunity afforded to co-operate with dealers, extent of time over which the medium is used, mechanical and quality characteristics provided, prestige afforded by use, and, of course, cost in reference to all of these. On these bases, each type of media has certain strengths and certain weaknesses which will be examined briefly.

1. Selectivity. This refers to the type of coverage. It is the question whether the readers are of the type whom the manufacturer has determined are the best prospects for his products and, largely, only those. Thus the publications and other media attempt to characterize the type of people whom they reach; often elaborate studies are made for this particular purpose. While a particular class of people might be largely included in the nationwide circulations of certain publications, if many people were reached who could not be considered prospects, advertising to them would constitute waste effort.

In general, newspapers, radio, and the national magazines with large circulations are least selective. From this statement the inference should not be taken that they are not selective. It is only a matter of degree. The *New York Times* has a higher level readership than some other New York newspapers and the *Saturday Evening Post* than some other magazines, but they are not so selective as some of the so-called quality magazines, such as *Vogue*, *House Beautiful*, and *Fortune*. Radio as a media is not selective, but it might well be proven that certain programs are, in that they appeal only to a certain type of audience. Outdoor advertising is not a selective media; in part, because it cannot be used in certain places where the people to whom it might be specifically directed live. Of all the media, direct mail is the most selective because it is directed specifically to those individuals or concerns who are believed to be good prospects for sales. However, its use is always limited by the difficulties involved in securing the names and locations of likely prospects.

2. Flexibility in Use. Any promotional method is flexible if it can be used when, where, and in the amount needed. Newspapers and local radio stations are flexible media because they can be used to stimulate demand where such action is particularly needed to realize upon marketing opportunities and to meet competition. Moreover, they can be used soon after a decision to use them is made. Arrangements can be made, and within a short time the manufacturer's message reaches potential buyers. The size and frequency of insertion, the appeals used, the layout, etc., can be changed quickly and without much difficulty in newspapers and on radio, whereas this involves much greater time and effort in magazines. National magazines and trade papers take much longer for both planning and execution. If a manufacturer wishes to cancel advertising in magazines with national circulation, up to three months notice must be given. Moreover, circulation is not divisible, as in newspapers and in radio. It is all or nothing, and thus little quantitative flexibility is afforded. While television is probably more flexible than most magazines, still considerable planning and rehearsing are needed to produce a good show. Direct mail is a flexible instrument because it can be applied in large or small quantities at any particular place, whenever it is needed.

3. Opportunity to Co-operate with Dealers. Newspapers, local radio, and direct mail are, because of flexibility, the media most useful for co-operative advertising with retail outlets. Not only can the dealers' names be used in advertisements, but often pictures of their places of business can be shown and their locations can be indicated. Thus, if interest in a product has been aroused, the reader will know where it can be secured. Often direct mail goes out to potential purchasers under the name of the dealer. The dealers send customer lists to the manufacturer who prepares the mailing piece, inserts the dealer's name, and sends it directly through the mail. Expense is usually met by the manufacturer, but may be shared with the dealers.

National magazines, radio and television programs, in contrast, are poor media for providing knowledge of where products will be available to purchasers. Indivisibility of circulation is the restricting factor. At times dealer lists are inserted in advertisements; but, to avoid using too much space, the number is limited and the type used is usually small. The same problems arise in the use of metropolitan newspapers for there may be many dealerships within the community. But they are in less aggravated form simply because the number of dealers is considerably less than for the nation as a whole.

4. Extent and Duration of Use. Magazines have an advantage over other media because each issue will probably be read by more people and because they have a certain measure of durability not present to a like extent in newspapers, and not at all in radio and television. The latter two are "perishable" in that there is only the possibility of recall, not reference or second use. If an impression is not made while the program is in progress, it is not made at all. Magazines may be read and reread, which means that an advertisement may be seen time and time again. Thus it has the opportunity of conveying and solidifying its message through something similar to reiteration. While newspapers have longer life than radio or television, still they are often bought for some particular purpose, such as the stock market quotations, are read by only one person, and are discarded quickly.

5. Mechanical and Quality Characteristics. While the various media can be considered as alternatives, this concept has limitations in that certain things cannot be done in all media or, at least, not acceptably. Magazines are usually printed on good paper which will allow for reproduction of art and color work. While newspapers are now using some color, the complex and colorful illustrations found in magazine advertisements cannot be reproduced in newspapers. They have considerable attention value, they are attractive and artistic within themselves, and they reflect credit upon the manufacturer and his products. Direct mail advertising has a like advantage, and now

television, particularly in color, can show products to the best advantage through both auditory and visual methods.

6. Prestige Afforded by Use. Advertising in national magazines and in the so-called "quality" publications does give a certain prestige to a company and its products not enjoyed in equal measure by those which use other media. Such advertising is brought to the attention of dealers, often in advance, as an indication of the help they are to receive in selling a company's products. Perhaps the national advertising in magazines will, in fact, be of less direct help in making sales than advertising in other media. Still, the fact that a product is nationally advertised in excellent magazines may get dealers to handle a product simply because of the prestige given by such advertising.

Selection of advertising media is, then, a process of determining what the product needs by way of promotion related to what the various media have to offer. In turn, what the media have to offer must be related to cost in order to get the best combinations. It is not axiomatic in this instance that you get what you pay for and no more. There are variations in cost in equal coverage by different means, and they can be discovered by diligent search. There are few fields in which imagination and resourcefulness, coupled with research activities, will yield more in greater effectiveness and cost reduction than in the broad field of promotion. As yet it has not received the proper amount of attention, particularly on the research side. Promotion based on hunch and faith is still all too prevalent in American business.

Testing Advertising Effectiveness. The problem of measuring the results from given expenditures is a particularly difficult one in the field of advertising because there are many influences playing upon consumers which may have a bearing upon purchases. Just what the influence was which caused purchase in a particular instance or how important each of many influences may have been is difficult, if not impossible, to determine with any great exactitude. It is the problem of imputation long recognized by the theoretical economist who reasoned about combinations of the factors of production and the measurement of results achieved. Here we find the same problem in very practical situations. Management would like to be able to say that because of a certain advertisement or series of them, or a radio or television program, sales increased by a certain amount; and that through this additional sales volume profits were increased by a certain amount. Then this increase in profits could be related to the cost of the advertising and a decision made whether the cost was justified in view of the results.

Seldom, however, is there a clear-cut situation of this character.

The problem is complicated by the fact that the results of advertising appear over considerable time, perhaps over many years. Moreover, the results apparently are neither continuous, nor directly proportionate to the expenditures. Experience indicates that a small advertising expenditure may have little if any effect on sales. However, if enough is done, the results may be significant. In other words, it may take large increments of change in advertising, particularly in publications, to produce a notable increase in sales. Perhaps it is a question of the effect of reiteration on the public consciousness. This lack of proportionality between expenditures and results is indicated by the assertion frequently made that a small increase in advertising expenditures will not be productive.

The difficulties of measuring results vary greatly for different types of advertising. At opposite ends of the range are institutional advertising and direct mail and, particularly, when the latter is used as the sole means of demand creation. The principal objective of institutional advertising is the maintenance of goodwill or a favorable public attitude toward a concern, rather than immediate sales. Through attitudinal research, some information may be secured in reference to changes in public attitude toward a company, but, in general, the results of institutional advertising must be determined deductively rather than inductively. In contrast, direct mail results can be measured with relative ease through inquiries or, perhaps, if no other demand creation method is used, through actual sales. In between these two extremes there are all gradations of difficulty involved and of assurance of the results attained. Still much has been done in this field of testing advertisements and notable progress has been made.[4]

Because of the difficulties involved in ascribing a certain sales volume directly to advertising effort, research has been directed at lesser objectives, notably to improving the quality of advertisements by pre-testing, by determining the extent of recognition and readership, and by testing advertisements in reference to their ability to elicit inquiries from readers. It is recognized that the ultimate objective is to increase sales volume, also that inquiries are not orders. But there may be a high correlation between them, one which may be proven in certain instances, assumed but not proven in others. Even though the research worker cannot go the whole distance in solving the imputation problem for advertising, still something can be done through the testing procedures mentioned to make advertising more effective.

The various types of tests are outlined and analyzed fully in advertising texts and will therefore be mentioned but briefly here. They

[4] See Neil H. Borden, *Advertising: Text and Cases*, Sections VII and VIII (Chicago: Richard D. Irwin, Inc., 1950), and C. H. Sandage, *Advertising: Theory and Practice*, Section IV (3rd ed.; Chicago: Richard D. Irwin, Inc., 1948).

are broadly designated as consumer opinion or consumer jury tests, recognition or readership tests, identification tests, inquiry tests, and sales tests, but there are many variations of each.

1. The Consumer Opinion Test. This test consists of asking consumers to rate two or more advertisements so that the best one of the group submitted may be selected for publication. The consumer may be asked which advertisement he likes best, which has the greatest appeal, which he would be most likely to notice and read, or which would most stimulate his purchases. Experimentation has shown that the phrasing of the question does not materially affect the results, so long as the question leads to a choice of the advertisement preferred by the respondent. A test of this character can be conducted either by personal interview or by mail, although the former is to be preferred. It can be conducted at little expense and, in addition, some information can be secured about the respondents. Thus there is the possibility of noting variations in response on the bases of age, sex, occupation, etc. As the advertisements are submitted apart from the publications in which they are to appear, differences which might influence response such as the particular magazine in which the advertisement is published, position within the publication, and competition with other advertisements are eliminated.

This test does not give information directly on the sales power of advertisements. There is some question whether people can give sound opinions on which advertisement among a number would be most likely to induce purchase. Furthermore, the test is limited to a comparison of the advertisements submitted. While the best advertisement might be selected from a group, all might be of poor quality. Nevertheless, the consumer opinion test does give some indication of relative merit and has proven of value to advertisers.

2. Recognition or Readership Tests. Through this test an attempt is made to determine what proportion of readers notice or read a certain advertisement. After an advertisement is published, interviewers call on a representative sample of readers of the publication. Again, as in the consumer opinion test, information can be secured on variables such as age and sex and the extent of recognition or readership can thus be furnished for subgroups. While recognition and readership ratings collected over a period of time and analyzed carefully do furnish valuable evidence as to what types of advertising and advertising techniques attract readers, still the reliability of the results obtained by this type of test is frequently questioned. One reason is the difficulty involved in getting accurate answers from respondents. Particularly in the case of heavily advertised products, confusion exists in the minds of many people as to whether they actually saw a given advertisement and whether it was in a given publication or elsewhere. Moreover, they may give erroneous answers for other reasons. Con-

trol procedures have dealt with this problem with varying degrees of success. Furthermore, a significant correlation may have to be assumed between the attractiveness of an advertisement to respondents and its power to sell merchandise.

Yet another problem in these tests centers around the fact that many factors influence the recognition and readership of advertisements. Among them are the medium used, the position of the advertisement in the publication, its size, and the time of publication. If the effect of one factor, let us say an advertisement's size, in securing recognition and readership is to be measured, the other factors must be held constant or allowed for in the results. Although there are many problems which must be recognized and handled effectively in tests of this character, significant results can be obtained which are useful to management.

3. Identification Tests. This test is a variation of the recognition test—one in which the testing goes somewhat further. Attempts are made to discover not only the proportion of a magazine's readers who noticed and read a particular advertisement, but also the proportion of readers who can identify the advertisements with the brand advertised and/or the manufacturer's name. Presumably an advertisement, although noticed and read, would not be effective unless the reader secured from it the name of the brand or the manufacturer, for otherwise it could not induce purchases. Testing for knowledge of these factors is carried somewhat further by attempts to discover whether the reader can recall not only the advertisement itself, but the theme of the copy, the product being advertised, and the brand. If the advertisement is highly effective, each of these and, perhaps, the name of the manufacturer as well, must all be so interrelated that the mention of any one will serve to recall the others.

4. Inquiry Tests. Inquiry testing is a method of attempting to determine the effectiveness of different advertisements, both relative and absolute, by the number and character of inquiries which they elicit from readers. In each advertisement the reader is invited to write in for something—a booklet, a free sample, a small gift, or for additional information. The offer may be featured by the use of a coupon or it may be made in the text of the advertisement. Each contains a different code number or uses a different address so that responses can be traced back to the particular advertisement. Advertisements may then be compared by the number and, perhaps, the quality of responses each brings in in relation to its cost.

There are many problems in the use of inquiry tests. Advertisements tested may differ in many respects or only in one, such as the appeal or the headline used. If the effect of only one is to be measured, advertisements should be uniform in all other respects. However, it is often difficult to hold other factors constant. Even when the same

medium is used, different issues vary in size and in the amount of competition offered for the reader's attention by other advertisements and by editorial content. Variations in response because of position in the publication and weather conditions are possible. Inquiries, although important, are not sales, and for many products it is difficult to establish a firm relationship between the two. In that event, the advertiser must be content with the number of inquiries as an indication of effectiveness. For certain products, however, inquiries can be related to later sales. This is relatively easy for equipment and supplies advertised in trade papers. Each inquiry may be followed up by correspondence or personal selling. While it cannot be said that the advertisements were solely responsible for the orders taken, still they were responsible for the initial contact between the buyer and the seller.

It will be found that advertisements in different types of publications not only produce different numbers of inquiries but that the quality of the inquiries will differ markedly, as indicated by subsequent sales. The responses to different sizes of advertisements, frequencies of insertion, locations within the publication, and in different publications may be noted both for the numbers of inquiries produced and their ultimate results in sales. Through testing of this character, advertising costs have at times been substantially reduced.

5. Sales Tests. As noted previously, advertising can at times be directly related to the sales volume which it produces. In mail-order advertising, orders are solicited directly from those who read the promotional material. This sort of advertising can be carried on by direct mail, by radio or television, or in newspapers and magazines. When only a single medium is used for getting orders, sales can be directly related to the advertising expenditure incurred. A decision can then be made as to whether the advertising was justified in view of the results obtained. Some allowance must be made, nevertheless, for the cumulative effect of advertising. Initial results may not appear to justify the expenditures for them but, if continued a reasonable length of time, the results obtained should be conclusive one way or the other.

Other Promotional Methods

As a group, the other promotional methods listed appear to be more manageable, both in selection and testing, than advertising of various types except those methods which solicit orders by mail. There is somewhat greater possibility of saying with assurance that there is need for the method and that its use is likely to produce certain results. Still these methods are heterogeneous in type and generalizations are of doubtful validity. Thus some discussion of each is in order.

Warranty and Service. The objectives of warranty and service are both promotional and protectional in character. While the need for them can usually be demonstrated without difficulty, the extent to which each should be carried in view of the resultant costs constitutes a difficult and ever-present problem for many concerns. Costs of service, in particular, are likely to get out of hand; that is, so much free service may be given that certain products or types of account actually become unprofitable. However, guidance to management is given by breaking down service costs by type of service, type of product, type of buyer, etc. Management can then see what costs are out of line with the benefits which can be expected from them. Then, also, the problem arises whether and to what extent the buyer should be expected to recompense the seller for service expenses. While promotional and protectional objectives are both present, they are often in conflict. Because of these special problems, warranty and service will be the subject of a later chapter (Chapter XV).

Shows and Exhibitions. Shows and permanent exhibitions are so much a part of the promotional effort for many products, among them automobiles and office equipment, that expenditure for them is hardly questioned. They are a means of bringing a company's line, particularly new products in it, to the attention of many potential buyers quickly. While the cost is heavy, still there is probably no other way in which this can be done so quickly and effectively. Dramatic effects can be created, the products can be seen under the best possible conditions, and much attendant free publicity can be secured. While permanent exhibitions in showrooms lack the dramatic approach, still they are needed to present products adequately to potential customers.

There are some possibilities of measuring the effectiveness of shows and exhibitions. A count can be kept of those people who enter shows and inspect a company's products. Often orders are solicited and taken, perhaps for delivery through a company's dealers. While it could not be said with assurance that these orders would not have been taken barring a show, still orders are tangible evidence of effectiveness. There is also some possibility of tracing later inquiries to shows and exhibitions. At least when the question is raised as to what shows and exhibitions contribute to the selling effort, some convincing evidence can be presented.

Free Deals, Samples, and Premiums. Lyon has defined a free deal as an offer or a giving of something for nothing contingent upon the purchase of goods or services at a price.[8] Under this definition, pre-

[8] This definition and much of the material which follows were adapted from Leverett S. Lyon, *The Economics of Free Deals* (Washington, D.C.: Brookings Institution, 1933). This is the most exhaustive study on the subject. Additional information is given in an article by Virgil Reed, "Good News and Bad—about Sales: How

miums are free deals, likewise samples if they are given only with purchases. He says that deals can be classified according to each of six common factors: the giver; the recipient; the basis for the offer; the gift; dimensions of time, area, quantity, and value; and familiarity of revenue product or service. The principal objectives listed are to introduce new products, to meet competitive conditions, to secure new customers, to secure large orders, and to retain good customers. Deals can be directed at wholesalers, retailers, or consumers. Through deals an inducement is given wholesalers and retailers to "push" the product, or the consumer to try it in the hope that trial will produce a steady user. The deal, in fact, is a form of temporary price reduction because one or more of the various middlemen or the consumer gets more product for a given sum than before. The advantage may accrue to the middlemen in higher profits or to the consumer in better values. Still the price structure for the product has not been disturbed, other than temporarily.

It will be recognized that management has very flexible instruments in free deals and samples for realizing upon marketing opportunities or for meeting competitive thrusts. This is indicated by the emphasis given by Lyon to the dimensions of time, occasion, quantity, and value. Deals may be continuous or only for short periods; they can be used on any occasion such as a slump in sales, competitive action, or a seasonal change; they can be applied to any desired quantity of merchandise, such as thirty days supply, or to orders of a certain size; they can be nationwide or localized; and the value of the deal in terms of the reduction from the standard price can be varied at will. As an illustration, an offer by a manufacturer to wholesalers in a given area for a thirty-day period to furnish an extra case of merchandise free with each dozen cases is a simple form of a free deal. Many are much more complex, but in all deals the possibilities open to the manufacturer for variation are many. Furthermore, there are some possibilities open for checking the results achieved and thus expenditures against results for purposes of guidance.

Manufacturers may look only at sales during and immediately after a deal to justify its effectiveness. Perhaps this is enough in some instances because the increase in sales during a deal may in itself justify the deal expense involved. But most deals, in order to justify the expense, must have a continuing effect on sales volume. Thus manufacturers are chiefly interested in many deals in the number of new buyers who become regular users of the product. If an adequate sample of those who buy a deal or get a sample can be secured and information elicited from them, the effect of the deal or sample in securing new users can be determined. This can be done through a panel of consumers, the members of which furnish information periodically on all purchases of given commodities, and at reasonable cost. The names of people who buy deals could be taken and infor-

mation secured later on whether they continued to purchase. But the cooperation of dealers might be difficult to secure and the cost might be prohibitive.

In one particular case, a 50-cent jar of one toilet preparation plus a 25¢ bottle of another under the same brand was offered at 59 cents. While this is a combination offer, it partakes of the nature of a free deal. Through a follow-up procedure it was found that "out of every 100 families who bought the deal, 67 were old users, 25 were new users, and 8 had formerly used the deal brand but were not using it at the time of the deal. Of the 25 new users, 12 continued to use the deal brand, while 13 switched away."[6] Undoubtedly, as a result of the deal, the manufacturer retained some customers who otherwise would have switched to another brand. While this number might be difficult to estimate, he at least has secured 12 new users out of every 100 who bought the deal merchandise. This is some evidence as to the effectiveness of the deal upon which a justification of the expenditures involved could be based. While there may be some doubt whether the results of this test could be generalized, still tests of this character enrich experience and thereby aid in the solution of later problems.

In the case of premiums both pre-testing and post-testing can be carried forward to determine whether certain items are acceptable to consumers. For instance, if, through submitting premiums to a panel of housewives for their comments, items can be selected more in line with their desires, it is a safe assumption that those selected will have greater "pulling power" than others when made available through purchases of a company's products in retail stores. Tests may also be made after a premium offer has been accepted by many housewives in order to determine whether the premium has proven satisfactory. Thus in the selection and designing of premiums great care is often taken by large firms such as General Mills, Inc., and General Foods Corporation to pre-test each premium thoroughly so that there will be no doubt of its acceptability to housewives and that it will be an outstanding value.[7] This latter point is of particular importance because premiums are often given *at a price* along with the purchase of so many units of a company's product.

Dealer Helps and Nontechnical Service. This is a type of promotional effort which is widely used in the sale of consumers' goods. Under this general title there is a considerable variety of activities on the part of the manufacturer, also of materials used. Among them are window display pieces, informational pamphlets about products and their uses which can be handed to potential buyers, storage and

[6] *Ibid.*, p. 67.

[7] E. W. Kurtz, "Pre-Tests Insure Pulling Power of Premiums for General Mills," *Sales Management*, August 15, 1947, pp. 90–92.

display cabinets, and informational activities whereby the dealers are aided in purchasing, store management, and the like. The objectives of such effort are to help the dealer sell the company's products and to secure his goodwill. To achieve the first objective, the various materials and suggestions of the manufacturer must be used. To attain the second objective, the dealer must be made to believe that they will, in fact, help him to operate effectively.

Testing methods of this type for effectiveness involves investigation of the extent of use of the materials provided and whether they are used in the manner and for the purpose intended. Manufacturers should not assume that all dealer helps are wanted or used. Many ways have been evolved to secure greater use and effectiveness, among them installation of displays by salesmen or crews trained for this particular work, a follow-up by salesmen to determine the extent and manner of use, joint defrayal of costs by the manufacturer and the dealer, and provision of materials only in proportion to the quantity of purchases. While the testing problem in this instance is a difficult one, procedures can be followed which should assure wise use of the funds expended.

Miscellaneous

Order-getting methods included under this heading are reciprocity, competitive bidding, deferred payment schemes, leasing, and guarantees against price decline. They are not items in the budget as are the others which we have considered. Yet they are order-getting means and have their costs. Reciprocity, for instance, may be used deliberately or its use may be forced upon a company by other concerns when business conditions are deteriorating. It has its cost, for purchases are probably made at somewhat higher prices than would have been paid if only the usual considerations of quality, price, assurance of supply, delivery, and other such reasons for purchase were taken into consideration. On the other hand, orders may be secured through the practice of reciprocity which otherwise would have gone to other concerns. Therefore, it is a question of the significance of what is gained in orders as over against the additional costs in purchasing. By careful investigation, management can come to an informed judgment on this point and be governed accordingly.

The other means mentioned are in part pricing and terms of sales but they have their promotional aspects and likewise their costs. Perhaps these costs can be clearly isolated, perhaps only roughly estimated, but in either case some attempt to justify them must be made if management is to act wisely. Deferred payment schemes are usually expected to meet their own costs. Subsidiaries are established by many companies to handle installment sales or the function may

be transferred to independent concerns. Consignment may aid in making sales but there are additional costs in collections and, perhaps, repossession of merchandise. In every instance, management must weigh the advantages and disadvantages and, to the extent that they can be reduced to monetary terms, attempt to justify the expenditures.

DETERMINATION OF THE SALES EXPENSE BUDGET

Sales planning finds quantitative expression through budgetary practice in many well-managed concerns. Large concerns habitually budget their expenditures and estimate their income, usually a year in advance with periodic revision quarterly or monthly. On the basis of forward estimates, a projected income statement may be made showing sales, expenses, and profits. While smaller concerns do not usually carry planning to this extent, there is always some planning of future operations. Otherwise they would be entirely haphazard and opportunistic. In small concerns largely dominated by one or two people, the work of budgeting might actually be a luxury. While there might be planning of high order, still its scope would be limited. There would be no need of formalization through budgets to provide for co-ordination, and expenditures could be watched closely. There would be little need for checking them against previous estimates. A small businessman may say that he plans as he goes along, and that he considers each expenditure carefully before it is made. Large businesses cannot proceed in this informal manner. There are many people involved, business is done in decentralized locations, and authority must therefore be delegated within limits provided by advance planning.

Objectives of Sales Expense Budgeting

The most important objective achieved through sales expense budgeting is that it forces people to plan future activities in those areas in which they have responsibility and authority. This probably means that they will review the activities under their control, at least to some extent, and will question whether certain expenditures in the past have yielded the advantages expected when expense authorizations were made. Perhaps attempts to test expenditures will follow. Even though past expenditures of various sorts are simply projected into the future, the likelihood is that they have been given some thought and, perhaps, even seem justified to higher executives under a budgeting system.

Higher executives, in turn, are given the responsibility for review

of proposed expenditures a considerable period in advance of the time at which they will be made. This leads to more painstaking analysis than would be likely if an authorization was sought only a short time before disbursement of the funds. Of more importance, perhaps, is the fact that through budgeting the proposed expenditures of all parts of an organization are brought together for review and possible revision. Then it should become apparent whether there is the proper degree of co-ordination among them. Particularly when companies are large and their operations widespread, co-ordination is greatly needed. Budgeting is one means by which major executives see the proposed activities of their companies as a whole. They are then in better position to furnish that general direction of a company's affairs which is expected of them. The budget is the blueprint of the future as far as it can be seen in advance.

Budgeting has a unifying effect in large concerns. The fact that field managers have to prepare budgets for their zones, divisions, or branches brings them into closer touch with the home office and its executives. Each man is given the opportunity to state what he would like to do and is asked to justify his position by indicating the amount desired, the action contemplated, and the results expected. As negotiations over budgets proceed, field managers are likely to feel increasingly that they have an important part in the company's planning activities. At the same time people in the home office secure a fuller comprehension of what is going on in the field because budgets, both in their preparation and in later checking up activities, are essentially a means of control, co-ordination, and communication.

Expense budgeting is a first step in the managerial control of expense. The control objectives are emphasized by the checking-up procedures which are a part of all budgeting effort. Periodically, actual expenditures are compared with the budgeted figures and discrepancies noted. Expenditures either under or over budgeted figures are significant to management. There may be perfectly logical explanations, for instance, lower or higher costs on certain items than those contemplated; but, in contrast, there may be no explanation acceptable to management. Then remedial action can be taken to keep sales expense in line. Lower over-all cost than budgeted may mean that certain things are not being done which executives wanted done in field offices or home office departments.

Through a comparison of budgeted expenditures and budget performance in each of a number of like zones or branches, expense standards may be established. At least, a knowledge of what other like field offices are doing on certain expense items is helpful. Attention can then be centered on those items which seem to be out of line in view of the volume of business being done, the number of salesmen,

or some other criteria. Investigation may then lead toward economies in operation, the possibility of which would not have been apparent unless such comparisons had been made.

Budget Based upon Sales Potential

The point of departure for all budgeting work is a sales potential figure, usually for a year in advance, secured through investigation of the market.[8] The sales expense budget, as well as budgets relating to raw materials and financial requirements, is prepared with this figure on expected sales in mind. Obviously expected sales and expense must be considered together as they are complements of each other. The planning procedure may be either from volume of sales to sales expense or in the opposite direction. Those who are responsible for planning may reason that, in view of general business conditions, the state of the market for the type of product which the company manufactures, and likely competitive strength, a certain volume of sales can reasonably be expected. This is followed by planning the sales expenditures in view of the expected volume. The other approach is to set up a sales expense budget and then to consider the question of what it is likely to produce in sales volume. While this would appear to be the less acceptable approach, it leads directly to a consideration of the market as a conditioning factor on expense and would probably lead to much the same relationship between projected sales and expense as the other approach.

In large concerns the budgeting procedure may be carried through for each of a number of products or product groups. While this may be obvious for corporations such as General Motors Corporation, in which the various manufacturing units are largely autonomous, it is the case likewise where products of diverse types are manufactured by a single concern. If the tasks of distribution differ markedly, there is little reason for treating all products together in sales expenditure planning. Even for a company such as Proctor & Gamble, which has various brands directly competing with each other, it may be wise to carry the budgetary procedure through for each brand. Competition is thereby induced between groups of men working on different brands within the company. Moreover, initiative and imagination in

[8] For this purpose the sales potential figure used must be a conservative one. Some companies prepare two estimates—one which is called the "sales potential figure," the other called the "sales budget figure." The latter is described as a prediction of the minimum expectancy of sales over an advance period. It is the rock-bottom figure of expected sales. In one particular instance, a company has only one potential figure but asks its zone offices to make expense estimates for budgeting purposes on the basis of 80 per cent of that part of sales potential (quota) assigned to each zone. The zones, if they spend the projected amounts, are expected to at least break even on an 80 per cent of quota realization.

planning may be fostered on the part of more people in the organization.

Whether the budgeting work is done for the company as a whole or for products or product groups, the problem is one of determining a reasonable total expenditure for sales in view of sales potential figures and then to break down that expenditure judiciously among the various means which may be used to achieve sales volume. Expenses should then be held reasonably within the budget's limits so long as the budget itself seems practicable. If it fails to do the marketing job expected because of heightened competition or an unexpected change in business conditions, revision is in order.

Length of the Budget Period

A distinction should be made between a planning budget and an operating budget. The planning budget provides for a long-range view of sales, expenses, and income, whereas the operating budget is a short-range forecast of activities and results in terms of the accepted plan of operation. Companies which emphasize budgeting are likely to prepare a budget for a year in advance. Work on this budget will start three to six months before the year begins and will be completed in December. The operating budget, in contrast, will cover a period of from one to three months. It is actually a modification of the planning budget. As the economic and competitive situation unfolds and its outlines in terms of company operations become clearer, more accurate forecasts can be made.

In one concern, an annual budget is made for purposes of general guidance—in particular, to test the feasibility of operating plans and to give some indication of the company's likely future-working-capital position. At the beginning of each month, estimates both of expenditures and sales volume are reviewed in the field and at the home office and projected for a quarter in advance. These quarterly projections serve as the basis for actual expenditures. Some concerns work only with quarterly or monthly budgets. Perhaps relatively small concerns which can move quickly when conditions change have less need of long-range projections. It should be recognized, however, that budgeting is a continuous process through revision of estimates as the ability to foresee future conditions increases.

Procedural Steps in Budget Determination

Preliminary Work. Preliminary work is always needed in the preparation of a planning budget, especially in reference to promotional activities. What to ask for in the budget becomes the preoccupation of department and field managers, if expense budgeting is

effectively practiced. It may be additional manpower, more extensive advertising in certain publications, shifting of expenditures between media, or any change of like character. One sales manager said that if he wished to get anything new in the expense budget he had to start many months in advance of the time he would be asked for budget estimates. It is in the nature of planning that people are induced to think ahead and, if budgeting is practiced, of the time when they will be asked to put themselves on record as to future activities. For instance, suppose that a training director wanted some new films for the training of salesmen and dealers. The procedure would be to determine the approximate cost, attempt to justify the expenditure, and get tentative approval from the sales manager prior to budget making. Much of this preliminary planning must come some time in advance of budget estimates.

For those concerns which use advertising extensively, the first step is to work on an advertising program, usually in co-operation with an agency. Work is likely to start six months or more before the budget period begins. After the advertising program has been reviewed, revised, and tentatively accepted, the advertising department is in a position to prepare a budget for promotional activities. Particularly for advertising in national magazines, advertising people must be forehanded because commitments must be made a few months in advance of publication.

There may also be some preliminary work in reference to an overall expense figure—the amount which will be needed to sell a projected sales volume. Largely on the basis of past experience, a total expense figure, together with a rough breakdown by types of expense—so much for personal selling, advertising, etc.—may be estimated against which assembled budgetary figures can be reviewed. This procedure will be considered shortly under review and revision of budgetary estimates.

Requests for Estimated Expenditures from Home Office Departments and Field Offices. Early in the fall, requests are made of those in charge of departments, and perhaps of field offices, for estimates of expenditures for the next calendar year. Usually these estimates are expected four to six weeks later—at least in plenty of time for review, revision, and completion by December first. Forms are provided with a classification of expense items, thereby facilitating the work as much as possible. Usually expenses are classified as fixed, semivariable, or variable with the appropriate items under each. One classification recently suggested is given in Figure 13. Because both the problems of estimate and the point of departure often differ as between home office departments and field offices, each will be considered briefly in turn.

1. Field Offices. The basis of expense budgeting in the field of-

FIGURE 13

FUNCTIONAL CLASSIFICATION OF DISTRIBUTION EXPENSES FOR A RUBBER MANUFACTURER*

1. Investment in finished goods: taxes on stock; insurance on stock.
2. Storage of finished goods (portions of following expenses applying to factory, branch, and district warehouses): rental expense, or maintenance and repairs to buildings; taxes on buildings; insurance on buildings; depreciation on buildings; heat, light, and power; outside storage space.
3. Inventory control, finished goods: salaries—stock-record clerks; salaries—merchandise distribution (allocation of stock to district and branch warehouses and preparation of orders on factory); overhead—space, equipment, supplies, and supervision charges.
4. Order assembly (physical handling): salaries—warehouse labor; overhead—space, equipment, supplies, and supervision charges.
5. Packing and shipping: material; labor; overhead.
6. Transportation (on merchandise shipped from factory or branch to customer, and from branch to branch, and on returned goods): freight; truck; express; parcel post; transportation on consigned merchandise, factory to branch.
7. Sales solicitation (special commodity or customer subdepartments or subfunctions will be set up according to the operating organization of the company, each with the following primary-expense accounts): salaries—salesmen; commissions—salesmen; commissions—agents; commissions—brokers; traveling expenses—salesmen; entertainment—salesmen.

   Overhead (except for the second account below, these overhead accounts would not, of course, be set up by commodity or customer subdepartments): salaries—sales executives; salaries—merchandise-department managers; salaries—district and branch managers; sales employment and personnel; sales training; sales research; sales engineering service; adjustment; sales records; space and equipment charges.
8. Advertising: advertising space: newspapers, magazines, posters, outdoor signs, electric signs; advertising agency services; art work-outside; radio; displays; motion pictures; electros.

   Overhead: salaries—advertising managers and assistants; advertising expenses; space and equipment charges.
9. Order entry: salaries—clerical (allocated portion); overhead—space, equipment, supplies, and supervision charges.
10. Credit extension: salaries—clerical (allocated portion); overhead—space, equipment, supplies, and supervision charges.
11. Billing: salaries—clerical (allocated portion); overhead—space, equipment, supplies, and supervision charges.
12. Accounts receivable: salaries—clerical (allocated portion); overhead—space, equipment, supplies, and supervision charges.

* Adapted from Charles H. Sevin, *Distribution Cost Analysis* (U.S. Department of Commerce, Economic Series No. 50) (Washington, D.C.: U.S. Government Printing Office, 1946), pp. 33–34. The functions and the primary-expense accounts are based, in part, on those suggested in *Uniform Accounting Manual for the Rubber Manufacturing Industry* (New York: Rubber Manufacturers' Association, Inc., 1933).

fices, as for the company as a whole, is an estimate of sales volume. The sales potential figure is broken down among the various regions, zones, or branches. The resultant figures are referred to as quotas. Therefore, a quota is that part of the total expected sales volume which each field unit is expected to secure. Even if the quota figures have not been determined in time, data will probably be available on the proportion of total sales which each field office made in past years, and that proportion applied to the sales potential figure will serve as a guide. The field offices will thus know the dimensions of the task which they are expected to perform and can then estimate the expenditures which will be necessary.

Certain expenses, such as a lease or rental terms on property, will be fixed and will require little if any attention. Other types of expenditure may vary directly with the expected change in sales volume. The semivariable expenses will require much greater attention because they may not be subject to standardization; there may be some doubt as to whether these expenses need to be incurred, at least in the customary amounts; and their incremental effects on sales volume may be difficult to determine. In field offices, the principal one of these is sales manpower. Whether it is fully or semivariable depends upon the salary plan in use and whether expenses are paid by the company or the salesmen. Usually there are some relatively fixed elements involved, of which more will be said later in the chapter on compensation.

2. Home Office Departments. The sales potential figure has less significance for budgeting home office sales expenditures than for those of field offices. In some departments, it is more a question whether they have been delegated new responsibilities or whether they will be expected to extend their activities along previous lines. Of course, the sales potential figure could be so reduced during oncoming depression that all departments would be requested to cut expenditures to the bone, but slight changes are not a usual cause of variation. Many of the items are treated as fixed expenses because the functions performed may not change greatly from year to year. Thus the amounts of the year previous are projected in the new budget, often without sufficient thought on the part of those concerned.

The budget for promotional expense is always the most difficult to prepare with assurance that the results will be acceptable. Promotional expenses are semivariable in character. Some promotion must go on despite changes in business prospects, but the amount and type may be varied substantially on the basis of management's appraisal of need. Unfortunately, as previously noted, guideposts are lacking to indicate how much is needed and whether additional expenditures under varying circumstances will justify themselves through additional increments in sales volume.

Some order-filling functions in contrast to those of order-getting are handled in departments under the chief sales executive. The work of these departments will be affected by changes in the volume of sales. Therefore, if the sales potential for the year ahead is higher or lower than the past year's sales, this change must be reflected in the sales expense budget. Expenditures for order-handling in the office, credit and collections, packing and shipping, and warehousing in the field are in part fixed, in part variable. If the extent to which they are fixed and variable has been determined and standard costs developed, the work of preparing sales expense budgets for them is not difficult.

Review and Revision of Budget Estimates. After the budgets from the departments and field offices are in and the data are assembled, the long process of review and revision begins. In large concerns, there are a number of levels through which the budget may go before finalization. To someone who is attempting to get a desired expenditure approved, these are considered as hurdles. First, the data will go to a budgetary officer or someone who acts in that capacity in the sales department. After assembly of the data and possible clarification, the budget goes to the top sales executives, then on to a budget committee for the company as a whole, and finally, together with budgets from the other departments of the business, to some final authority such as a committee of top executives or the president. At each level it is scrutinized carefully, further justifications for specific items of expenditure may be requested, and, as judgment is brought to bear upon the operations projected and their costs, decisions are made on each item and finally on the budget as a whole.

For those concerns which strongly emphasize budgeting, this is the point at which top management may actually come to grips with program planning. While it might be argued with some cogency that top sales executives are always planning the sales program as they are constantly aware of what is going on and thinking about changes which might be advisable, concentrated attention on their part may await the appearance of budgetary estimates. When planning is done and decisions are put into effect depends, in part at least, upon the nature of the product. For products which do not vary greatly from year to year, program changes may be put into effect at any time when management has convinced itself as to their desirability. Programming for them is more of a continuous process. In contrast, for products which feature new models annually, sales program changes are likely to be centered about their introduction. While there are many continuing elements in the program, there are likewise many of shorter range upon which decisions must be made. These come to a head in sales expense budgeting, and particularly when top executives go through the review and revision process.

In considering a proposed sales expense budget, executives of going

concerns have guideposts in past experience. They have information in past records of the sales-expense ratio for different sales volumes and the trend in this ratio. The usual procedure is to start with the amount which was spent for marketing purposes during the previous year. By the time that budget estimates are reviewed in the late fall months, much of the calendar year is past and close estimates of that year's marketing expenditures, sales, and profits can be made. If a certain amount was spent and profit results were satisfactory, it is presumed that the amount was about right and that a substantial change is not called for. Perhaps a smaller amount, more effectively used, would have produced equally satisfactory results. Furthermore, satisfactory results may have been largely the outgrowth of other factors, such as product improvement or a particularly strong demand. Nevertheless, the procedure is usually one of starting with the past year's sales expenditures, often without much analysis, and making adjustments for the difference between actual sales in that year and the sales potential figure for the year ahead.

For instance, the question might be stated as follows: If it cost a concern $500,000 to make sales of $1,750,000 in 1949, how much should it cost to make estimated sales of $2,000,000 in 1950? The sales-expense ratio might be used. If the ratio was 28.57+ per cent in 1949, this same percentage could be applied to the sales potential figure for 1950 to secure the dollar amount, or $571,429. While this might furnish a rough approximation, management would probably consider other factors, in particular the relationship between fixed and variable costs in the sales expense budget. Undoubtedly, some costs would not increase at all if sales increased by 14.28+ per cent, while others, if fully variable, would increase in proportion to sales.

Other factors might be a variance in the mix of products between realized sales in 1949 and projected sales in 1950. If a greater proportion of products with high selling costs are included in 1950 than in 1949, this fact should influence the total projected selling cost. Other factors might be greater need for promotional expense relative to a given volume of sales because of a less intense demand, the contemplated action of competitors, or, because of new products in the line, a greater need of developmental work which would not result immediately in sales volume. But, through an analysis of the selling job along these lines, an over-all figure can be determined which should reasonably approximate actual costs if unforeseen changes in business conditions do not occur.

This over-all expense figure can then be broken down for different types of expense—so much for personal selling, advertising, service, etc., perhaps on the basis of the past year's expenditures. Again, in thinking of the amounts which will be necessary for each broad type of expenditure, considerations such as those mentioned in regard to

the determination of the total figure may be taken into account. This is determination on the objective or task basis. It is against this estimate of total sales expense and these estimates of expense by types of selling activity in view of a certain projected sales volume that the sales expense budget is reviewed.

The projected budget is likely to call for considerably more expenditure than the estimated total expense figure. This is to be expected, for managers down the line want more "tools" with which to work. Perhaps they need them, i.e., the accumulated judgment of the department and field managers may be superior to that of higher management. But projected expenditures in the marketing field, with but few exceptions, are always open to question because of the uncertainty of the results which will be forthcoming. In other words, the proof of results from a given type of expenditure, or varying increments of it, is usually lacking. If managers down the line are asked what the results will be if advertising in newspapers or on the radio is increased 20 per cent, or if additional salesmen are placed at a particular branch office, they may be hard pressed to furnish any convincing evidence. For this reason, together with the probable divergence between the total of the accumulated estimates and the independently determined expense figure, some paring of estimates or elimination of certain suggested activities is likely after negotiations with those who prepared them.

Another reason for the possible revision of the budget is that those down further in the organization who prepare expense estimates for the departments for which they have responsibility may not be working in a context of complete information about the company as a whole. Higher executives, in contrast, must look at the company organically, see clearly the relationship of its various parts, and provide co-ordination. In other words, *revision is the outgrowth of co-ordination.* For instance, higher executives may look at an estimated expenditure for advertising a certain product and consider it too high because production facilities will not provide for an increase in demand. Nor would it be wise, in their opinion, to increase those facilities in view of other demands for expansion. A knowledge of present and potential profit rates on different products may suggest more promotional effort on some products, less on others. The point, simply stated, is that the outlook of the people who make preliminary expense estimates may be substantially more limited than is that of the higher executives who review them. Therefore, revision is to be expected so that the budget, when finally adopted, is well co-ordinated and acceptable for the company as a whole.

Final Review and Adoption. This function is the prerogative of top management, usually sitting as a committee group. In one particular instance, it is called the finance committee, in another, the policy

committee. An income budget as well as an expense budget may have been prepared so executives can see the likely outcome of business operations if a certain program is followed and certain expenses are incurred. These budgets do represent the best judgment of the management team on what should be done over an advance period and on probable results. Therefore, the committee is not likely to give much attention to minor details. Rather their attention will be concentrated on questions of balance between the company's various activities and the likelihood of proper co-ordination between them if the budget is adopted, also on matters of policy inherent in the budget. Broad questions, such as whether the budget seems realistic in view of recent events, both domestic and foreign, which affect the national economy; the position of the company competitively; and its own internal strength, particularly its working capital position in reference to the budget, will be considered. If the budget meets these suggested criteria, it is likely to be adopted.

Administration or Follow-up

While a distinction is made between budget determination and its later administration, perhaps it is more realistic to think of budgeting as a continuous process from which management is never free for long. The planning budget needs to be revised as time goes on for foresight is always limited and thus fallible. For instance, through revision of the planning budget, an operating budget may be prepared for each quarter and revised monthly by the simple process of dropping the current month and adding the month after the two months ahead. For instance, in the month of May, those who work on the budget will be asked to prepare estimates for the ensuing quarter, including June, July, and August. This means that each contemplated expenditure will have been reviewed four times before the month for which it was planned becomes current, once in the planning budget and three times in the quarterly budgets. While this procedure of a moving budget might be considered either initial determination or follow-up, it is a necessary activity, for an unrevised budget in the light of current knowledge may be worse than no budget at all.

While there is some value in budgeting even without work of a follow-up character, budgets need to be used to realize their full value. It is a question of constant checking up to see what is actually happening. Procedures and forms must be provided through which anticipated and actual expenditures at given points in time within the budget period can be compared—for instance, each month, quarter, and year-to-date.

Some of the possibilities for guidance through follow-up work on

expense budgets are indicated by the following quotations from a sales executive's letter on this subject:

> In preparing a forecast [operating budget] you are in reality making a revised budget for a short period of time and are basing such calculations not on the original budget, but on sales and expense trends as they are seen in the light of present conditions. When the forecast is added to the year-to-date actuals, a glimpse into the future is obtained, which may or may not reveal a healthy relationship with respect to your original budget. Any corrective steps can thus be taken well in advance to prevent such an adverse condition becoming a reality. . . .
>
> As a further check on the accuracy of the sales budget, it becomes possible under normal conditions to project the actual year-to-date sales on an actual basis. Past sales records will reveal what approximate percentage of the year's volume is obtained during each month or each quarter. By calculation, therefore, the cumulative sales for any given period can be projected to a full year's outlook basis and budget comparisons made.
>
> Since sales, expense and profits should be in such a relationship as to produce the most favorable results from the managerial standpoint, by preparing a realistic budget and following the actual and projected operations periodically, there should be no cause for surprise when the budget period has been consummated and the actual results are set beside it.[9]

As suggested in the quotation above, trends in the variations between budgeted expenditures and those actually incurred can be observed and the likely year-end outcome can be determined in sales, expenditures, and profits if these trends continue. A continual awareness of what is happening and what it means in terms of profits if it continues is thus made possible through this follow-up procedure.

In addition to the year-to-date approach and its projection to year end, the variations between actual and budgeted figures, item by item, each month or quarter can be noted and the reasons therefor determined.[10] Some variance can be expected and, if it is not substantial, should be overlooked. However, it is serious if certain things have not been done which were projected in the planning budget, or if expenditures of certain types have been considerably greater than expected and adequate explanations have not been given. Usually this is not the case, for substantial departures from the budget are likely to be cleared before expenditures are made. Reasons for variance are numerous, among them unforeseen local complications such as competitors' premium offers, free deals, or distribution of samples; labor disturbances which suddenly reduce purchasing power and thereby

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[9] *Printers' Ink*, Vol. 226, No. 3 (January 21, 1949), pp. 36–37.

[10] For illustrations of the forms used in budgetary administration see P. H. Nystrom (ed.), *Marketing Handbook* (New York: Ronald Press, Inc., 1948), pp. 1221–45.

increase sales cost per unit; carelessness on the part of the individual responsible; or, simply, inadequate budget allowances initially. The importance of the budgetary procedure is that the variations can be spotted. Analysis of them may lead to remedial action before they get further out of line. In any event, analyses will be useful in the preparation of later budgets. Through continued budgeting practice, it is common experience that estimates improve, that variation between estimated expenditures and actual ones decrease as time goes on.

In the administration of sales expenditures under a budget there is always some danger of inflexibility—an unwillingness to depart from the budgeted figures, even though conditions have changed. This may be the result of a lack of appreciation of the limits of foresight, or of inertia against change even of tentative decisions on expenditures. However, companies cannot confidently nor justifiably authorize for a year in advance expense appropriations so inflexible that they need not be reviewed and revised later. Full advantage must be taken of marketing opportunities as they appear; also, at times, funds must be used to counteract the actions of competitors which could not be foreseen when the planning budget was made. This is not opportunism, but rather an expression of a realistic attitude toward the dynamic character of the market.

When the economic situation is particularly unsettled, as it was at the end of World War II, greater flexibility is needed. This really means more independence in action on the part of department and field managers. One author suggests (1) that "flexibility can be provided by setting up allowance for sales expenses on the basis of per cent of sales income in addition to the usual method of allowances in sales dollars"; (2) that the extent of permissible variation be clearly understood and definitely stated; (3) that sales executives "be authorized to terminate, curtail, or increase expenses as conditions dictate"; (4) that "a programmed budget composed of three elements, namely, sales expense, action to be taken, and results or benefits expected" be prepared; (5) that "adequate performance records . . . be maintained by which it is possible to identify the benefits derived from any given item of expense in comparison with the benefits expected"; (6) that "the requirement of complete follow-up provides top management with a balance wheel to offset the complete flexibility given the sales manager."[11] Whether as much independence in action as here suggested should be given depends upon the need for so doing and, in addition, upon the calibre of the sales executives and managers. Unsettled business conditions or a policy of decentralization of authority and responsibility may provide the reason therefor. Obviously, con-

[11] Ralph R. Butler, "Budgetary Control of Sales Expense," *Proceedings of the Spring Conference of the American Marketing Association, Boston, May 16–17, 1946*, pp. 103–6.

trols are less needed if the ability of a company's personnel is at a high level.

SALES PROGRAM PLANNING—NEW PRODUCTS

Much of the previous discussion pertains largely to sales programs for products which have been on the market for some time. For such products there is accumulated experience in program planning. The product has gone through its developmental stages in the market, the uses of the product and the potential buyers are known, and past experience in contacting and handling them serve as a guide to the choice of promotional means for advance periods. As different conditions prevail for new products, some additional discussion is needed.

Dissimilarity in Conditions

New products may be brought out under many dissimilar circumstances, any one of which may condition the sales planning problem. Established companies may bring out new products which are closely related to those presently in their lines; for example, Proctor & Gamble might bring out another soap powder to compete with its own products: Tide, Duz, and Oxydol. Under such circumstances, a management team would probably be assigned to the new product, and all the promotional experience of Proctor & Gamble would be available for guidance. In contrast, a company may bring out a product of a type with which its sales executives are not familiar. Perhaps there is some alignment with other products in the line on the production side but little on the marketing side. Still the product may be of a type with which the market is familiar. Under such circumstances, the experience of a company's executives may not apply but the experience of its new competitors may serve as a guide. Even their staffs may be raided to secure experienced men.

Now and then, however, either an established company or a new concern will bring out a really new product which differs substantially in its form or properties from anything then offered on the market. Fiberglas, magnesium metal, and the new silicone fluids for lubrication are cases in point. For such products sales program planning must start from scratch. While the general experience of sales executives will point the way on market development, still there is little specific product experience available for guidance, nor can it be secured from other companies. Under such conditions sales executives must "feel their way" in market development—that is, they should go slowly and accumulate experience as they go along. Enthusiasm for a product should not result in hasty and ill-advised action, as the knowledge available of the market, even though painstaking studies

have been made of possible uses and potential users, will usually be fragmentary and thus inconclusive. Still market analysis will furnish some clues as to whether a product should be produced in commercial quantities and on the most desirable order of market development.

Expense Budgeting for New Products

By the very nature of the case, budgetary planning for new products is less exact and more subject to error than for older products. Yet established companies which have brought out new products in the past, perhaps of somewhat like type as in the soap instance, will have some basis in experience to determine the developmental expenses which must necessarily be assumed to get a new product on the market. Losses are expected until many consumers become habitual purchasers. If new products have been brought out frequently, a developmental pattern both as to procedures and expenses may have been evolved. By following much the same pattern in each instance and observing the progress made for the new product, some indication can be secured whether the campaign is going well or otherwise. The results attained at different stages can be compared to those attained previously with other products. From experience, the management may estimate that a certain sum should see a product through to profitable operation. Then it is the familiar question of how to use that sum most effectively.

New concerns may find themselves in a more difficult position as they may lack both experience and funds. Circumstances may considerably limit the choice of means for promotion. If funds are limited, those means may have to be selected which will cost the least or those whose costs are directly variable with sales volume, even though they are not considered most advisable. For example, new concerns often sell through wholesalers although direct sales to dealers would appear more advisable. The new management may determine that only so much can be set aside for initial marketing expenses. It is simply a question of the availability of funds, not one of the needs of the product in sale. Then it is a question of choosing means of sale most wisely within that amount.

Planning Market Development

Inducing Trial Use. For many new products, particularly materials and supplies used in manufacturing, there is much preliminary work needed in reference to the market before a sales program is developed. It is likely to begin when the product is available only in small quantities, perhaps from a pilot plant. With all the information at hand as to the product's properties and possible uses, the prelimi-

nary marketing program is one of attempting to secure trial use by carefully selected companies through personal calls, correspondence, and sampling techniques. Often it is discovered that the product needs to be changed in some respects because it does not fully meet the needs of potential buyers. Through this process of trial use and further product adaptation, the extent and location of the market can gradually be determined. If, after this preliminary investigation, it still appears wise to go forward, a trial sales program is in order.

Selectivity in Distribution. Seldom is a concern in a position to develop all possible markets for a product at once, nor would it be wise to do so. Thus for many products it is a question of which market to develop first and the order in which the others should follow. Markets may be thought of here either as geographical areas or as types of buyer. If it is discovered, for instance, that a product has possible economic uses in the steel, automotive, refrigeration, and woodworking industries, and promotional funds are limited, one of these must be chosen for first attack. Perhaps it can be determined in which industry the possible savings through use are the greatest. Both the size of the potential market in each industry and the extent to which firms in each industry are concentrated geographically will also have a bearing on a decision regarding which industry should be developed first. It is usually wise to limit the market to be cultivated in this way, particularly for a new concern. More intensive sales effort can be applied, marketing costs are likely to be less per unit sold, and marketing activities are more manageable.

Introductory Marketing Programs. The objectives of trial or test programs are to determine whether the product can be sold profitably in the market, what types of promotion are most effective, whether the distribution channels tentatively decided upon are satisfactory, and, in general, to secure as much information as possible about the marketing problems involved. For materials or supplies used in manufacturing, chemicals, for instance, introductory marketing programs may be undertaken either by a product development department or by a regular sales organization. One of the large chemical companies still entrusts all introductory marketing work to its product development department. The reason is that this department is in better position to work closely with customers in an attempt to iron out their problems in the use of new products than is the regular sales organization. A new product is not turned over to one of its regular sales departments until the product has been fully accepted by the market and is being sold in commercial quantities.

For consumers' goods, the usual test market procedures are followed. Test markets are selected on the basis of their representativeness of the national market for a product. General Foods Corporation, for instance, used Philadelphia and Atlanta for Minute Rice, as both

of these centers consume large quantities of rice. Philadelphia was considered representative of northern rice tastes and uses, while Atlanta was considered representative of the South, where rice is widely used but prepared differently. Both cities were considered suitable for surveys from other points of view such as dealer co-operation, facilities for promotion, etc. Salesmen were trained to introduce the new product, introduction took place, and sales results were carefully noted through store audits. After distribution was secured, advertising and sampling campaigns were started to educate consumers as to the uses of the new product and to put the product for trial use into their hands. Subsequent interviews with consumers are frequently used in order to determine their reactions to new products. Through programs of this character, manufacturers often secure suggestions for change in the product itself or in its packaging or pricing, as well as evidence on sales potentiality and the effectiveness of means for promotion.

After introductory marketing programs have been completed, sales executives are likely to have enough information on which to proceed with assurance. They will know more about potential buyers, where they are located, the probable extent of their demand, how they can be reached, and something of their reasons for purchasing. This information may be either encouraging or discouraging. At times, products are withdrawn at this stage simply because there does not appear to be enough potential demand in view of marketing costs to permit of profitable operation. Perhaps the product will be sent back to the laboratory for improvement or to the packaging people for a change in package or label. If the test results have been encouraging, however, the new product will become a regular member of a company's line. The market areas over which it is sold will then be gradually extended as factory output permits, and sales programming will follow the same lines as for other products.

SUMMARY

Planning the sales program is essentially a twofold task: one of synthesis, one of analysis. Every sales executive wants a selling program which will distribute his company's products at desired volume levels at minimum cost, not necessarily for any one year, since selling costs are always, to some extent, developmental in character, but over a long period. In order to achieve low per unit marketing cost, the sales executive must choose wisely among a heterogeneous group of means available for use. It is his task to determine the "right" proportions of personal selling, advertising of various types, other sales promotion, service, etc. This task, it was noted, is a difficult one and one for which there is no ready-made solution. This does not mean

that one concern cannot benefit from the experience of others, but only that the over-all situation of one concern, even in the same industry, may differ so markedly from that of another that like combinations of means for selling would not be effective for each. Not only is this problem of choosing means an individual one for each concern, but it is a problem which cannot be side-stepped. Therefore it is a question of finding proper bases for making decisions on individual means which, in combination, constitute the sales program.

In making plans, those individuals who are responsible must have something to go by—some bases for making decisions. The necessary guidance is furnished by analysis based upon observation and experimentation. Both deductive and inductive methods must be used if sales executives are to act wisely. Sales executives are prone to say that they depend largely upon past experience in planning sales programs. This may be a compound of many things if it has been varied in character, among them deductive reasoning in connection with past sales programs, perhaps for different types of product; pre-testing of advertising and other promotional methods before they were used; post-testing to ascertain whether certain means of selling were effective and to what extent in attaining desired objectives; and the conclusions reached through sales analysis and distribution cost accounting. Experience, however, may or may not have been fortified with marketing research of this character in the past. If it has been, surprisingly good results may have been attained in the planning and execution of sales programs.

If marketing research work is carried on continuously, sales executives always have some bases for change in sales programs. Profitability of sales to different types of account, in different territories, and from different sizes of order, as revealed by distribution cost accounting, will serve as a basis for decisions on market coverage and thus on budgeting for salesmen's compensation and expenses. Advertising research will suggest that certain types of advertisement or media are more effective than others. Sales analysis will indicate trends in sales which, perhaps, should be reflected in the expense budgets. An awareness of competitors' activities and changes in competitive position in the market as revealed by data on sales in retail outlets or purchases by consumers may suggest desirable changes in the sales program. Always there should be a willingness to experiment, to try new things as they are developed. Imagination, a willingness to experiment, and past experience, well fortified by both past and current marketing research, should produce sound sales programs.

Sales planning in many concerns finds monetary expression through budgetary practice. But whether budgeting is or is not practiced, someone in every concern must anticipate what expenditures and revenues will be in the future. Executives must ask themselves

whether certain contemplated expenditures will be wise, i.e., whether and to what extent they will achieve certain desired results. Budgetary practice simply formalizes this procedure and places it within certain time limits. Many people in large companies are forced to plan, and far enough in advance of execution so that higher executives can review their plans, revise them when necessary, and develop an over-all plan for the company.

In expense budgeting work, however, concerns may be content with the form and not look sufficiently to the substance. While the budgeting procedure has merit in that planning is emphasized thereby, the important thing is not the procedure, but the extent and basic quality of the planning work. Formalization of planning through budgeting is relatively unimportant. It is an aid to planning, but not a substitute for it. Sound planning will produce good results without a budgeting procedure, yet still better results might reasonably be expected if a budgeting procedure is used. One of two large, well-known, competing concerns in the food industry, for example, adheres much more closely to a formalized budgetary procedure than does the other, but it is not the more profitable of the two concerns. Apparently the basic quality of its planning work is not of so high a calibre. If management knows the market thoroughly, if it is fertile in ideas in reference to sales methods, if there is an organizational setup through which ideas can be fully explored and decisions reached, if sales methods are tested wherever feasible, and if the planning effort comprehends the means for carrying out decisions as well as making them, the subtance of planning is there, even though the budgetary form may be largely disregarded. Effective planning is largely a matter of the ability, resourcefulness, and imagination of sales executives and their will to work together in harmony and good spirit.

REVIEW AND DISCUSSION QUESTIONS

1. Characterize the nature of the over-all problem involved in the development of a sales program or campaign.
2. Contrast the conditions under which the planning of a production program is carried forward with those which are encountered in the planning of a sales program.
3. Sales programs have been likened to individuals in that no two are exactly alike. How do you account for the pronounced variation in programs which so evidently exists, even for concerns in the same industry?
4. State as concisely as possible the managerial tasks of top sales executives in relation to sales programs and campaigns.
5. Is it a sound conclusion that little guidance is found in the experience

of other concerns to aid management in the selection of means for attaining the objectives sought in a sales program?

6. What rejoinder would you make to a sales executive who implied that a certain expenditure for selling purposes should not be questioned because it had been made almost habitually for many years?
7. How, apparently, do sales executives actually arrive at decisions as to the means that will be used for selling goods and services? Is it largely through experimental rather than through observational methods? Is it chiefly a deductive rather than an inductive procedure?
8. What possibilities do you discern for more adequate measurement of the effectiveness in use of such promotional means as direct-mail advertising; free deals, samples, and coupons; and dealer helps of various types?
9. "The free deal cannot be defended on any logical grounds. It may have helped the manufacturer who invented it to steal a march on his competitors, but now it is so commonly employed that it confers no special advantages. It has, in fact, certain disadvantages. No one wants the free deal, but apparently no one has the courage to stand up and say so." Comment.
10. "Because of the uncertainty of the results attainable, the problem of controlling many marketing costs is not to measure the cost of a known result but to make a planned expenditure most effective." Comment.
11. What is the quantitative basis of all sales expense budgeting work?
12. Attempt to rate the various objectives of sales expense budgeting in the order of their importance to the business enterprise.
13. It is common experience that the budgetary estimates by minor executives, both in home office departments and in field offices, of the funds needed to carry forward the work for which they are responsible must usually be revised downward in the process of review and revision by higher executives. Why is a reduction in these estimates to be expected?
14. What should higher executives bring to the budgeting process which would enable them to perform the review and revision process wisely?
15. What are the recognized limitations to the usefulness of sales expense budgeting systems? Comment on the assertion that they may be used either wisely or unwisely.
16. When a new product such as Owens-Corning's Fiberglas, Goodrich's Koroseal, or Goodyear's Pliofilm is developed, what are the questions of a marketing character which a company must attempt to answer in order to formulate an effective approach to the market through a sales program? What are the guideposts available to the manufacturer of established products which are lacking for the new product manufacturer?
17. The Digby Soap Company produces bar soap, soap chips, and soap powder under a number of brands, all of which are sold through wholesalers throughout the national market. A missionary sales force

works constantly with dealers and checks on the Company's competitive position in different products. In some parts of the market the Company's products are relatively weak competitively; in others, strong. The Company is continually studying the effectiveness of various means of promotion to improve its competitive position in weak territories.

In a sales territory in southern Michigan, sales were considerably less than normal. It was decided to use a coupon method of promotion in this area and to test its effectiveness in overcoming competitive weakness. Since this area was a reasonably representative one, it was expected that the test results would have general applicability. Eighteen independent stores in five towns were selected for the test. Cooperation from chain stores could not be secured. To obtain a base figure prior to the test period, inventories and purchases were checked for a two-week period in order to determine actual sales in each store, both of the Company's soap and of competing brands. At the end of the second week, coupons were distributed through the presentation of which a bar of the Company's soap could be secured free with each bar purchased.

At the end of the second two-week period, purchases, inventories, and sales were again checked to determine the actual sales during the two-week period while the coupons were redeemable. After an interval of ten weeks had elapsed, sales again were determined for a two-week period to ascertain the permanent effect, if any, of the previous couponing promotion.

The data on sales during each of the three periods were as shown in the accompanying table.

Item	Control-Period Sales		Test-Period Sales		Check-Period Sales	
	Bars	Per Cent of Total	Bars	Per Cent of Total	Bars	Per Cent of Total
Total bars of soap products sold	3,846	100.0	3,275	100.0	2,296	100.0
Company brand:	737	19.2	1,003*	30.6	436	19.0
Brand No. 2	515	13.4	358	10.9	223	9.7
5	491	12.8	280	8.5	181	7.9
9	787	20.5	599	18.3	369	16.1
10	150	3.9	134	4.1	166	7.2
12	209	5.4	180	5.5	220	9.6
14	167	4.3	84	2.6	118	5.1
Others	790	20.5	637	19.5	583	25.4

* Does not include 412 free packages given out with coupons.

Various conditions or events "interfered" with the testing procedure and therefore cast some doubt on the results. For instance, chain stores were not included in the store sample. The company which produced Brand No. 5 reduced its price two cents at the start of the second week of the control period and went back to the original price three weeks after the test period ended. The company which pro-

duced Brand No. 10, a new brand on the market, conducted a radio contest during the ten-week interim between the test period and the check period. Also, during the test period, one of the chain store companies had sold the Company's brand at a slight reduction from the regular price. These events were not considered sufficiently disruptive, however, to nullify the results of the testing procedure.

Interpret the results of this test of the couponing method of promotion. Are the results reasonably conclusive? Offer suggestions for a further refinement of the testing procedure.

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Chapter XV

WARRANTY AND SERVICE POLICIES

FOR MANY products, decisions must be made and procedures developed in reference to the warranty and service which will be offered consumers.[1] In a very real sense, the automobile manufacturer and the refrigerator manufacturer sell performance. The consumer has not actually received what he has purchased until he obtains the expected performance, perhaps over a relatively long period of time. He frequently needs the help of the manufacturer to get utility from products, and desires assurance at the time of purchase that aid will be forthcoming if difficulties are encountered.

While this reasoning has particular application to mechanical products, it also applies to others. For example, assurance is needed in the purchase of foods and drugs. It may be given by company reputation, publicity, statements on packages, sales comments in retail outlets, and by the knowledge that the manufacturer must comply with the food and drug laws. At times, even more definite assurance may be provided under "satisfaction or your money back" guarantees.

Warranties, guarantees, service agreements, and other such arrangements pertain to the physical character of the product and are a part of the sales offer. But they are also effective means of sales promotion. Therefore, they can be considered appropriately either in connection with planning the sales effort or planning the product.

Why the Buyer Needs Assurance before Purchase

Imperfect Standardization. For the great majority of mechanical products, some variation in the units produced is unavoidable. While a company will make every effort to control raw materials and production activities so that each unit manufactured will be perfect in every detail, there is always the possibility that some part will be defective or that assembly will be at fault. Because of these conditions,

[1] The terms "warranty" and "guarantee" are used interchangeably. Although they have quite dissimilar legal origins, they are now used without apparent distinction by business and even in some legal writings. Until recent years businessmen were prone to use the word "guarantee," and still do orally, but written representations regarding products are now commonly called "warranties."

any particular unit may fail to give satisfactory performance. Through no fault of his own, the expected service from the product cannot be secured by the consumer. The responsibility is the manufacturer's, and assurance needs to be given that he will accept that responsibility when such conditions arise.

Quality Not Determinable by Inspection. Whether the consumer accepts imperfect products when purchasing depends largely upon his ability to determine quality by inspection. If a fault in a product is easily seen or if it appears quickly, perhaps during demonstration, then assurance is not needed to a like extent. But for many products the consumer has little possibility of finding imperfections at the time of purchase. He lacks the requisite training to make a revealing inspection of mechanical products. Moreover, the product defect is likely to be hidden within the mechanism. Food products and drugs are usually packaged and thus defy immediate inspection. In drugs there may be no possibility of determining the value of the product other than through chemical analysis. Therefore, the consumer must rely on the assertions of the manufacturer that a product is up to the accepted standard.

Deterioration in Product Prior to Purchase. Some products deteriorate over time although they are not in use. This is probably true of gut in a tennis racket or of rubber in hip boots or tires. If products such as these have been on retailers' shelves too long, they are likely to be below standard because of that fact. Some assurance either as to the time of manufacture or as to performance may be needed. A well-known example of this in the food line is the so-called "dated" coffee.

Faulty Installation. Products such as conveying machinery and oil furnaces are usually sold to include installation. Thus the manufacturer or his representative takes the responsibility for installing the product. The buyer needs assurance that installation is properly done and that the seller will make amends if later difficulties can be traced to improper installation.

Lack of Buyer Knowledge. The buyer needs assurance in many instances because he feels entirely unable to cope with the product if any difficulty arises. An electric furnace offers a good example. If it stops functioning, the average householder has little conception of what may be wrong. Therefore, because he recognizes so keenly his own inabilities, he requires assurance of a continuing interest in his use of the product on the part of the manufacturer. This assurance takes the form of readily available parts and service.

New and Untried Products. In the purchase of new and untried products, or old products which are being adapted to new uses, the risk taken is materially greater than for repeat purchases or for purchases of goods with a standing reputation. The buyer may demand

that the manufacturer share in that risk by giving definite assurances. The potential buyer may be intrigued by the possibilities of a product, but, in view of the uncertainties attached to its use, he hesitates to make the necessary financial commitment unless recourse is provided by the seller.

Manufacturers' Attitude toward Assurance

When the above conditions are present, the manufacturer is likely to give some form of assurance to the buyer at time of purchase. However, if the product is particularly subject to abuse by the user, if there is little possibility of determining with accuracy whether the fault for breakage or other reasons for ineffectiveness lies in the product itself or in the manner of use, or if the product is highly perishable, assurance other than that given by the reputation of the maker is not likely to be forthcoming. Compare the sealed-in mechanical unit of some electric refrigerators with a squash or tennis racket. If the former fails to give service during a period of reasonable length after purchase, it must be the fault of the manufacturer, for nothing which the user can do, short of attempted destruction, will alter the product. The latter product may be broken beyond repair in the first few moments of use, and still it may have been perfect at time of purchase. The sealed-in mechanical unit often carries a five-year warranty, whereas no formal warranty of any sort is usually given with rackets.

There are other conditioning factors, likewise, which may affect the manufacturers' attitude toward buyer assurance. It may not be the practice of the trade to give assurance of a formal nature, and the manufacturer who does so is considered by others to be guilty of questionable practice. On the other hand, newer companies which lack general customer acceptance for their products may think it necessary to give a definite warranty in order to get initial use, even if the nature of the products makes such action questionable. Low grade or quality of an article may explain the failure to give the buyer assurance. In other cases where the buyer is skilled and the goods are open to inspection, no assurance is needed.

How Assurance Is Given

When the buyer needs assurance in purchase, the manufacturer may furnish warranties, provide facilities for service work, and maintain conditions which create confidence in the company and its products. The assurance given to buyers assumes a great variety of forms. This is to be expected, as it is a reflection of the type of product being sold, the size and reputation of the manufacturer, and the objectives

which the manufacturer has in mind when decisions regarding representations to the buyers are being made. It is one of those factors in selling activities which lend themselves to variation. There is always the temptation to outdo competitors in the assurances given and to create novel and unusual types which may appeal to potential buyers. While these factors have induced variety, trade-association effort has worked in the opposite direction. Through the work of associations there has appeared a noticeable tendency to standardize express warranties and thus to eliminate their influence as a purchasing motive for one manufacturer's product rather than for another's. More attention will be given to this tendency later. First, it is necessary to classify broadly the assurances which manufacturers give to buyers at time of purchase.

Company Reputation. A reputation for producing only products of high quality and for standing behind these products is the strongest assurance to purchasers which a company can furnish. Examples of this practice appear frequently.[2] A potential buyer will recognize that a product will surely be of good quality if it is produced by a certain manufacturer. In the purchase of drug products, for instance, there is little hesitancy if a product is made by certain companies or by one of the so-called "ethical" manufacturers. While a consumer attitude of this sort is difficult to achieve, it is immensely valuable. It is largely an outgrowth of effective publicity, word-of-mouth advertising, and direct personal experience with a company or its products.

Company reputation likewise has an indirect bearing on other forms of assurance. When representations are made regarding a product in either verbal or written form, their cogency in consumers' minds depends largely on company reputation and the means provided to make good on such representations. Although there are legal means at hand for forcing a company to make good, still the cost of legal action in relation to the value of a product often makes enforcement of warranties practically prohibitive. For consumers' goods, major dependence is really placed on the reputation of the producer—a reputation which he cannot afford to jeopardize by refusal to do those things which are necessary to recompense the consumer when, through no fault of his own, the expected utility from a product is not secured.

Organization for Service. Whether personal experience with a company or its products has been or will be satisfactory often depends upon the effectiveness with which dealers do the service tasks assigned to them. The buyer reasons in reference to many durable products that the sale is only the beginning of a relationship which

[2] Recognition that this fact is fully appreciated is furnished by a statement frequently made by E. R. Squibb and Sons in advertising copy. It is as follows: "The Priceless Ingredient of Every Product Is the Honor and Integrity of Its Maker."

may last for a number of years. He needs to be reasonably sure that the manufacturer will continue to have local representation so that some interested party will be immediately available for consultation and help if the product fails to give the expected utility. Immediate availability of parts and the ability of local representatives to do repair work effectively assume great importance to him. The extent to which these are available locally depends almost entirely on the overall effectiveness of the manufacturer's service organization. The work of the local representative, in a very real sense, is the end-product of many activities relating to service carried forward at the main factory, the assembly plants, and, perhaps, by wholesale distributors.

Implied Warranties. A warranty is an obligation assumed by a seller. It is based upon representations regarding a product made to the buyer in order to give him greater assurance in purchase. In legal terms: "A seller's warranty in connection with a contract to sell or a sale of goods is an obligation, incidental to the transaction, that the seller shall be answerable for various matters relating to the product."[3] The scope of warranties will vary greatly because in the course of negotiation much or little may be stated or promised. Moreover, promises may be made verbally or in writing. There also may be tacit representations regarding a product. Other obligations are independently imposed by law and are thus present, quite aside from the negotiation between the buyer and the seller. A broad distinction is usually made between express and implied warranties. The former includes warranties derived from express promises and those imposed by law because of express representations. The latter includes warranties imposed by law because of tacit representations or because of broader considerations of public policy or social advantage.[4]

It is probable that many businessmen are unaware of the existence of certain implied warranties, for legal action against them on the basis of such warranties is relatively infrequent. But the Uniform Sales Act, which had been adopted by 34 states in 1945, as well as by Alaska, Hawaii, and the District of Columbia, lists numerous warranties which are implied in any sale.[5] Some of these have to do with the right to sell the goods, their freedom from encumbrance, and so on. In sale by description or sample there is an implied warranty that the goods will correspond with the description furnished and that the bulk of the goods will correspond with the sample in quality. Section 15 of the Uniform Sales Act, relative to implied warranties of quality is as follows.[6]

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[3] Vold, *Vold on Sales* (St. Paul: West Publishing Co., 1931), p. 440.

[4] *Ibid.*, p. 441.

[5] See Bogert and Britton, *Cases on Sales* (Chicago: Foundation Press, Inc., 1936), pp. 1100–1120, for a copy of this Act.

[6] The National Conference of Commissioners on Uniform State Laws and the American Law Institute have been working jointly since July, 1942, on the production

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

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

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

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

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

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

(6) An express warranty or condition does not negative a warranty or condition implied under this act unless inconsistent therewith.[7]

This section of the Act attempts to delineate the obligation of the seller and the recourse of the buyer in questions involving suitability of product for use and merchantability in distributive outlets. Evidently, in a situation in which the buyer confesses ignorance and relies upon the seller's skill or judgment there is an implied warranty that the goods are suitable for a given purpose. In a case before the Minnesota Supreme Court the purchaser of a coal stoker was unable to use the product satisfactorily.[8] The case brought out that the purchaser relied entirely upon the seller's judgment as to the suitability of the equipment. Thus there was an implied warranty that the product could be satisfactorily used for a given purpose, and the case was decided in favor of the plaintiff. The defendant relied upon item 4 of

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of a commercial code. For more than two years prior to that time the National Conference had been working on a revision of the Uniform Sales Act. This work was carried forward jointly and has been largely completed. It has been approved by a group of advisors representing the Commissioners and the Institute, likewise by the Institute itself, as the approval of the advisors binds the Institute but not the Commissioners. Final approval has to be given by the Executive Committee of the Commissioners. No decision has presumably been made as yet as to whether the Act will be separately published or as one of the parts of the Code of Commercial Law (see *The American Law Institute, Uniform Revised Sales Act, Proposed Final Draft No. 1* [Philadelphia: American Law Institute, 1944], pp. 18–21, 142–51; also Herbert F. Goodrich, "A Modern Commercial Code," *Pennsylvania Bar Association Quarterly*, Vol. XVII, No. 2 [January, 1946], p. 182).

[7] Bogert and Britton, *op. cit.*, p. 1103.

[8] *Iron Fireman Coal Stoker Co.* v. *Brown et Ux.*, Minn. 399, 234 N.W. 685 (Bogert and Britton, *op. cit.*, p. 815).

section 15 of the Uniform Sales Act, which states that there is no implied warranty as to a product's fitness for any particular purpose if sold under its patent or other trade-name. In this instance the Act restates the common-law rule that the seller was relieved of the warranty if the buyer "had ordered a 'known, described, specific' article, provided that the thing furnished answered the description of the article, no matter whether it fitted the buyer's purpose or not."[9] Although the restated provision in the Act is frequently invoked by manufacturers and distributors for their protection, and successfully, in this particular instance it was proved that the buyer knew nothing of the product, its trade-name, reputation, or the work which it was expected to do other than through the defendant. In another case a shoe manufacturer brought action against a shoe retailer to recover a certain sum allegedly owed on purchases.[10] The retailer had attempted to return the greater share of a purchase rather than pay for it because users of the shoes said that they wore out in two or three weeks. Poor quality was proved to the satisfaction of the court, and the case was dismissed. The court held that the shoes were sold under an implied warranty that they were free from any defects which would render them unmerchantable or which would not be apparent on reasonable examination of the sample.

Items 4 and 5 are of considerable protection to the seller. They are based upon the assumption that the buyer should know about the suitability of a product for a particular use or at least that he has been enabled to do so. The importance of the qualification in item 3, however, is undoubtedly diminishing as goods are becoming more highly specialized, more frequently packaged, and thus more difficult for the buyer to inspect and evaluate. Defects which examination "ought to have revealed" are very few for many products. For instance, in the purchase of proprietary drug items, examination by the prospective buyer is of little avail. In the purchase of automobiles, tools, or household equipment the typical buyer has little possibility of determining inherent value by inspection. This is the situation for both consumers and distributive agents, such as wholesalers and retailers, although the latter are supposed to be more informed buyers. Thus in the majority of cases now there is an implied warranty, even though the buyer has examined the goods before purchase. Furthermore, this applies to latent defects unknown to seller and buyer alike, as well as to those known to the seller but not discovered by the buyer.

Manufacturers attempt to protect themselves against legal action on the basis of implied warranties by disclaimers of various sorts, i.e.,

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[9] Bogert and Fink, "Business Practice Regarding Warranties in the Sale of Goods," *Illinois Law Review*, Vol. XXV, No. 4, p. 410.

[10] *Laganas Shoe Mfg. Co.* v. *Sharwood*, 173 Minn. 535, 217 N.W. 941 (Bogert and Britton, *op. cit.*, p. 864).

they attempt to limit their entire responsibility to express or promissory warranties which have been carefully drawn and thus contain the limitations desired. It should be pointed out, however, that manufacturers seldom wish to dodge the responsibility for their products imposed by implied warranties. What they wish to do is to protect themselves from unjustifiable action of a legal nature. Above all, they wish to be involved as infrequently as possible in legal action brought against them by purchasers of their products. Whether the decision is in their favor or otherwise, they, in effect, lose the case as the publicity given is a damaging factor to good will.

Express Warranties. First, it should be repeated that express or promissory warranties, as they are sometimes called, are not necessarily given in written form. Product descriptions, verbal assurances, and even what we usually call "sales talk" *may* be construed as definite representations concerning a product, and thus serve as a possible basis for complaint on the part of the purchaser and subsequent legal action if adjustments are not made. But the effusive claims made for products in conversation between salesmen and prospects are not express warranties. The line, however, between serious representations and mere outpourings of exaggerated statements such as "extra good product," "by far the best in the market" is a most difficult one to draw.[11] When the statement made is simply the seller's opinion and there is no particular reason for supposing that he possesses exact knowledge, it does not constitute a warranty. This is likely to be the situation in selling from retail outlets. But a manufacturer's salesmen are expected to know the products which they present to distributors and industrial purchasers, and their affirmations in relation to those products and what they can be expected to do are more likely to be interpreted as express warranties.

When a product is of low grade or quality, of a perishable nature, or particularly subject to abuse, the seller is not likely to give an express warranty, especially in written form. In the latter instance, it is difficult to determine whether the fault was in the product itself or in the manner of use. When the sale of a product is customarily by description or sample, the implied warranty obviates the necessity of an express warranty. When goods are purchased through inspection by skilled buyers, express warranties are likewise unnecessary. But for most manufactured products, some express warranties are given, frequently in written form. Although many things may be warrantied, the more usual ones can be placed somewhere within the following classification.

1. Absolute Satisfaction. This warranty is given at times for food products and drugs but rarely for durable goods. The remedy pro-

[11] See "Verdict," *The Spectator*, December 30, 1937, for a digest of cases on sales talk and warranties.

vided is a refund of the purchase price or perhaps more; rescission, or a return of the goods with money refunded; replacement or repair. The purchaser may be given an option, such as replacement or his money back.

2. Compliance with Some Fixed Standard. The Food, Drug, and Cosmetic Act prescribes minimum standards for some products which may form the bases for product warranties. Standards are also fixed in other legislation, by the National Bureau of Standards, and by government purchasing agencies.[12] These eventually become widely used as standards of quality and thus of warranties. Standards are established by the Bureau of Standards upon the request of trade-associations or responsible producers or distributors. Compliance is entirely voluntary, but the standards are widely used, and the fact of compliance is often noted by specific reference to the appropriate commercial-standard number on the product. The manufacturer thereby warrants that his product meets the requirements of this standard. The Bureau of Standards has developed a certification plan whereby the right is given to manufacturers to state that fact.[13] Lists of "willing to certify" manufacturers are mailed regularly to practically all known governmental purchasing agencies and to other industries, as well as to the public upon request. Trade associations, such as the National Board of Fire Underwriters and the Illuminating Engineering Society, set standards for products which may become the bases for warranties.

3. Approval by Authority. The claim through the use of a seal that a product has been "Accepted" by the American Medical Association or that a product has been "Certified" by the United States Testing Company, Incorporated, is an express warranty of considerable significance. Whether a product is, in fact, warrantied by the Association or the Testing Company or by the manufacturer is unclear. There apparently is much doubt as to the extent of responsibility assumed by publishing companies, testing laboratories, and professional associations which provide seals of approval for use by manufacturers or processors. However, in practice, either the giver or the user of the seal of approval reimburses the purchaser if a product

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[12] See *List of Commercial Standards*, revised to October 1, 1946 (Letter Circular LC 836) (Washington: U.S. Department of Commerce, National Bureau of Standards); *Federal Specifications: Federal Standard Stock Catalog, November, 1945* (Washington: 1946); F. W. Reynolds, "Voluntary Standards Adopted by the Trade," *Domestic Commerce* (Washington: U.S. Department of Commerce), Vol. XXXIV, No. 11 (November, 1946), p. 3.

[13] See P. G. Agnew and J. W. McNair, "Certification and Labeling Activities in 60 Commodity Fields," *ASA Bulletin*, Vol. III, No. 1, pp. 1–23. For a description of this plan see *The Certification Plan: Its Significance, Scope, and Application to Selected Federal Specifications and Commercial Standards*" (Letter Circular LC-559, July 6, 1939), prepared by the Division of Codes and Specifications (Washington: National Bureau of Standards, Department of Commerce).

is faulty. Often it is difficult to determine whether the product or the purchaser is at fault. However, at this point it is sufficient to note that a warranty of this character differs materially from the warranty discussed above, inasmuch as there usually are no definite, published standards or specifications with which the manufacturer has signified his compliance.

4. Performance. Warranties in relation to performance may be given in terms of time periods, use periods otherwise measured, or capacity in use. For instance, the written passenger car warranty which is standard for all members of the Automobile Manufacturers Association covers the first 90 days of ownership *or* the first 4,000 miles of use. In other cases there is no unit easily available to measure use, and thus a time unit is necessarily adopted. For machinery and equipment, warranties are commonly made which state that a product under given conditions will do a certain number of operations in a given period. Many performance warranties, particularly in consumers' goods, have been superseded by those which claim nothing but mechanical perfection at time of sale.

5. Mechanical Perfection. This is a very commonly used basis for warranties both for consumers' and for producers' goods. Often the warranty will read as follows, "We warrant every new———to be free from defects in material and workmanship under normal use and service. . . ." When the company which assembles the unit does not make all parts, the proviso "made by us" is likely to be inserted. The only remedy usually provided is replacement of the defective part without cost to the owner. Other warranties of this same general type may carry a stipulation to the effect that the goods were inspected prior to shipment or were in good condition when shipped.

6. Freedom from Harmful or Disadvantageous Results in Use. When it is recognized that a product frequently develops unfortunate defects in use or after use over a given period, warranties may be given in regard to very specific things. An example is the warranty given by a manufacturer of monuments against splitting or cracking under weather. It might be termed a performance warranty on specific matters. It is likely to be used by a manufacturer who has perfected a product which is not subject to common defects which are recognized by many potential consumers.

Promotional versus Protective Aspects of Warranties

In giving express warranties, the producer has one or two general objectives in mind. One might be termed a "promotional" objective, the other a "protective" one. When a manufacturer offers a product under the warranty of "full satisfaction or your money back," his chief objective is to get initial trial of a product. In order to do so, he

has given an unlimited warranty which entirely eliminates risk for the buyer. This lack of risk is a cogent sales argument. In contrast, another manufacturer may definitely limit the warranty which he gives to mechanical perfection of the product. The buyer's redress in such an instance may only be the replacement of defective parts. The warranty in this case will not be used extensively, if at all, in negotiation. Rather, it is an instrument *primarily* designed for the protection of the seller.

These two objectives are not mutually exclusive. There is an element of protection in a warranty designed for promotional purposes and an element of promotion in one designed for protection. The unlimited promotional warranty protects as well as creates good will. Its use might also protect the position of a company, if competitors were making serious inroads into sales volume. The protective warranty may be used to influence the prospective buyer during negotiation. At least to the uninitiated, it is something tangible in which the company gives certain assurances. The fact that it may withdraw other warranties, perhaps some expressed during negotiation by the individual with whom the buyer deals directly or implied warranties under the common law or the Uniform Sales Act, need not be mentioned. While warranties with numerous disclaimers may have some promotional influence, their more important excuse for being is to protect the seller against unreasonable claims for redress on the part of the buyer.

Warranties which assure absolute satisfaction, approval by authority, and freedom from harmful or disadvantageous results are used almost entirely with promotional objectives in mind. Those which deal with performance and compliance with fixed standards are largely promotional, but they do have protective elements likewise. The warranty of mechanical perfection is designed with the objective of protection uppermost. In other words, negative aspects of the warranty dominate the instrument rather than those of a positive nature. First, we shall consider the use of the promotional type.

Promotional Warranties. Warranties which involve a refund of the purchase price or a replacement of merchandise are exceedingly strong and easily understood sales arguments. They dramatize well and thus may be used as the central theme in an entire sales program. Because they eliminate the greater share of the risk in purchase, people may be induced to try a product, and, if satisfied, they may become regular users. Although such warranties involve a substantial cost, still the cost of securing new users in this way may be less than through advertising, canvasing, free samples, or other means. The cost through refunds or replacements is usually less than expected. In 1932 the Hormel Packing Company offered "double your money back, if

you do not say this is the best vegetable soup you ever bought."[14] Only one of each 10,000 purchasers asked for the refund. In order to realize upon the warranty, the consumer was required to take the label on the can, write upon it the reason for not liking the soup, and mail it back to the company. For small articles such as this on which these unlimited warranties are usually made, the bother involved in securing the refund or replacement minimizes the number of purchasers who take action. The warranty is often so worded and the procedures stipulated for getting refunds so burdensome that the consumer, even though he is dissatisfied with the product, simply lets the matter pass. At least unjust demands are held to a minimum by such tactics. Whether it is good policy to surround the refund or replacement privilege with much red tape is open to question. In the manufacturers' effort to protect himself against illegitimate demands and to reduce the cost involved, he may create ill will both on the part of the dissatisfied user and of the dealer who served him.

Frequently the promotional warranty is used to secure dealer as well as consumer good will. Such was the objective of the Agfa Ansco Corporation, which issued a so-called guarantee bond with each roll of Agfa Plenachrome roll film. The warranty was as follows:

> This Agfa film has been manufactured under very exacting tests, and so sure are we of the user's satisfaction that it is sold with the following guarantee: If the results from this film do not suit you, no matter whose may be the fault, fill in your name, etc., on the reverse side of this guarantee and mail to Agfa Ansco Corporation, Binghamton, N.Y., with the complete set of negatives, upon receipt of which we will send you postpaid a new roll free of charge, together with suggestions of real help to you in obtaining good pictures with your camera.[15]

Dealers were benefited by this warranty, as they were relieved of the burden of adjusting complaints and were given additional work in developing films. With the replacement film the company sent detailed instructions and advice. This educational effort increased the demand for film and reacted to the benefit of the dealer. This liberal warranty made possible the direction of educational effort to the points where it was most needed. It produced a large measure of good will at a reasonable cost.

All promotional warranties are not so capable of justification as the one just discussed. When they are given on higher-value products, the value may be such as to permit returns or claims despite the bother and expense involved. Some warranties apparently have the effect of

[14] B. F. Berfield, "Your Money Back," *Printers' Ink*, Vol. CLXXVI, No. 7, p. 32.

[15] Dr. Ernst Schwarz, "Making a Guarantee Do Double Duty," *Executive Service Bulletin*, Vol. XV, No. 9 (New York: Policyholders Service Bureau, Metropolitan Life Insurance Co.).

inviting the return of merchandise at the least provocation. When unlimited warranties are given on higher-value products, illegitimate claims are always forthcoming, and they are most difficult to adjust. If the warranty appears to favor the buyer too greatly, it may have a negative effect, the supposition being that there must be something wrong with the product if such great inducements to purchase have to be given. Moreover, the use of warranties for promotional purposes can be carried to absurd lengths, each firm attempting to outdo competitors. This was surely the case in earlier years on time warranties for automobile tires, watch cases, alarm clocks, and other articles. But such questionable practices have been largely discontinued through group action.

Some people assert that, because of unwise use and the presence of a less gullible public than formerly, the promotional value of warranties has decreased. While there may be some truth to this assertion, there is likewise some evidence to the contrary. In a sellers' market there are relatively few announcements of new "full satisfaction" warranties, but there was a rash of them in the middle years of the 1930–39 decade. Perhaps they appear in cycles and become more common in periods of depression. But any such cogent sales argument as they afford will always have some users.[16] Those warranties which claim compliance with fixed standards are not less prevalent than formerly, nor do they appear to be less effective. In fact, their number should increase as the result of the work by many groups, governmental and otherwise, to provide standards for use by manufacturers.

Approval by authority as a promotional weapon may have greater use than in the past through an increase in the number of organizations established to aid the consumer in purchasing and to aid the manufacturer in product testing. But there are certain factors which may limit its use, for instance, approval by authority may be adversely affected by the recent flood of testimonial advertising. These purported statements of people in the public eye might be considered as statements of approval by "authority," but they make no pretense of being the result of objective evaluation of products. While testi-

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[16] The mail-order companies continue to use absolute warranties. For instance, the *Spring and Summer Catalogue* (1945) of Montgomery Ward & Co., Inc., states as follows: "WARDS GUARANTEE—If for any reason you are not entirely satisfied with any purchase made at Wards, you may return the merchandise. We will promptly refund all you paid including transportation charges paid by you. Or, if you prefer, we will exchange it for something that does satisfy you. . . . When you trade at Wards, you can buy with absolute confidence because you are protected by our 73-year-old Guarantee of Satisfaction. We are sincere in our desire to serve you and are not content unless you are entirely pleased with your purchases. If at any time something should be wrong, do not hesitate to write and let us know. We will welcome the opportunity to make it right, since it is only by serving you well that we can expect your continued patronage. Our Guarantee means exactly what it says and you are the sole judge—because it is you that must be satisfied" (p. 841).

monials by society leaders, sports champions, and motion-picture stars are quite different from an indication of approval by an unbiased and continuing organization, nevertheless, the public is frequently not discerning and might not recognize that approval in the first instance is based only upon preference at the most, whereas in the second instance it may be based upon scientific product testing. Still, the extent to which consumers would be influenced by testimonial advertising might be substantially less than by indications of approval by testing laboratories or professional associations. Perhaps an overdose of testimonial advertising would stimulate the use of promotional warranties based upon product testing.

The position taken by the Federal Trade Commission toward the work of organizations which test products and then recommend or certify them to consumers through use of seals may constitute a restraining influence on further use. As examples, the American Medical Association, the American Dental Association, and such magazines as *Good Housekeeping* and the *Parents' Magazine* have seals which they permit manufacturers to use which indicate that a product is accepted, recommended, commended, or, perhaps, guaranteed by them. The attitude of the Federal Trade Commission as illustrated by the action taken against *Good Housekeeping* and its "Tested and Approved" seal is a case in point.[17] The commission was skeptical of the sweeping guarantees which it felt the *Good Housekeeping* seals implied. Evidence was presented to indicate that recommendations were not always based upon adequate testing of products and, therefore, that the seals might have undue influence on the purchases of consumers. Specifically, *Good Housekeeping* was ordered to cease and desist from "Using, or authorizing, or allowing others to use, seals . . . unless and until the product concerning which such representation is made has, in fact, been adequately and thoroughly tested. . . ."[18] *Good Housekeeping* was also ordered to cease and desist from "Representing, directly or by implication, that any product . . . is guaranteed by respondent, unless such guarantee is without limitation, or if limited, unless all limitations upon such guarantee are clearly, conspicuously and explicitly stated in immediate conjunction with all such representations of guarantee."[19] Nothing in the order prohibited the use of the words "Tested and Approved" or "Recommended." The two seals using these words were, nevertheless, discontinued in 1941, at least partly on the basis that wartime product changes in many consumers' goods too greatly complicated the situation and

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[17] Federal Trade Commission, *In the Matter of Heart Magazines, Inc., Docket No. 3872, Complaint, August 17, 1939; Findings as to the Facts and Conclusion, and Order To Cease and Desist, May 13, 1941.*

[18] *Order To Cease and Desist,* pp. 2–3.

[19] *Ibid.*

increased the work of product testing. *Good Housekeeping* has not as yet reinstated these seals but is still using its seal, which reads: "Guaranteed by *Goodhousekeeping*, Replacement or Refund of Money if Not as Advertised Therein." The obligation of *Good Housekeeping* is now specifically stated as follows: "If any product or any service is not as advertised herein, it will, upon request and verification of complaint, be replaced or money paid therefor refunded."[20]

The action taken by the Federal Trade Commission against *Good Housekeeping* has not greatly affected the use of seals as a promotional device. This action may have improved the situation by inducing a greater measure of product testing, thereby making the statements in seals more authoritative than previously. At least the Commission brought forcibly to the attention of manufacturers and many consumers that permission to use seals may not be preceded by adequate product testing and, therefore, that they may be of little significance as an indication of a product's real merit. Perhaps the action of the Commission clarified the question of the degree of responsibility assumed in the use of seals and by whom. However, in most instances it is unclear as to whether the manufacturer or the association, publication, or laboratory which furnishes the seal guarantees the product on which the seal is used. It would appear that *Good Housekeeping* itself guarantees the product on which its seal is used. In contrast, the seal of acceptance by the Council on Pharmacy and Chemistry of the American Medical Association apparently does not constitute a warranty. At least, such a responsibility would, in all probability, be disclaimed by the Association. On drug products the seal indicates only that a product meets those requirements in testing which permits its inclusion in the Association's publication, *New and Non-official Remedies*.[21]

As a matter of policy any business concern which uses or contemplates the use of seals of approval should assure itself that the seals have significance in the eyes of consumers and that they will, therefore, serve a definite promotional objective. In the long run, confi-

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[20] *Good Housekeeping*, April, 1951, p. 6. The action taken by the Federal Trade Commission against *Good Housekeeping* affected the use of other seals likewise, for instance, the seal of the American Medical Association. The Association largely discontinued the use of its seals for food products other than those of an unusual character for the feeding of children or invalids. At present its seal is used almost entirely in advertisements in medical publications rather than those of a general character such as the *Saturday Evening Post*. One other publication changed its seal to read "Commended" instead of "Recommended," probably with the idea in mind that the first term had less definite implications of warranty.

[21] American Medical Association, *New and Non-official Remedies* (1945). The "Rules Governing the Admission of Proprietary Articles to This Publication," are given on pp. 17–19. The "Rules Governing the Use of the Seal of Acceptance" will be found on pp. 19–21.

dence in seals of approval can be achieved only by effective product testing. Doubts are not likely to arise as to whether seals have significance if they are furnished by government agencies or perhaps by professional associations. Much greater doubt is likely in reference to those furnished by publications or by testing laboratories. Nevertheless, seals furnished by commercial laboratories such as the United States Testing Company, Incorporated, or by publications such as *Good Housekeeping* may gain and fully merit public confidence and thus provide a strong promotional force for the concern which is permitted to use them for its products.[22]

In summary, the use of promotional warranties whether of absolute satisfaction or of refund of purchase price, compliance with some fixed standard, or approval by authority is like any other promotional method in that the warranties may be used intelligently or otherwise. Such warranties may or may not be effective in inducing purchase. Furthermore, they have certain costs, including those for administration, replacements, or refunds. They may also have intangible costs in customer dissatisfaction if the warranties are not administered effectively. Costs can be determined with some degree of accuracy, and their effect in producing sales volume can at least be estimated. Management has a twofold problem of analysis, first, to measure the relative value of different types of promotional warranty in producing sales volume and, second, to determine whether warranties are a more effective instrument in producing sales volume than are other methods of promotion in relation to their respective costs.

Protective Warranties. Express warranties of the protective type are primarily designed for the protection of the seller rather than for the assurance of the buyer. Again it should be emphasized that they are not exclusively so. There are likely to be some clauses included which would serve to assure the initial purchaser as to the quality of the product and the intention of the manufacturer to do something constructive if it fails in performance. Yet the chief purpose of many warranties is to protect the manufacturer and distributor against unreasonable demands of the purchaser. As the dealer frequently sides with the buyer in cases of dispute over performance or mechanical perfection of a product, the warranty, in fact, protects the manufacturer from both the dealer and user. *Essentially, it is an instrument which explicitly defines and thus delimits the responsibility which the seller assumes in regard to a product subsequent to sale.* Under common law he is forced to accept some responsibility, for there are always implied warranties. Furthermore, in part because of the inability of the purchaser to determine quality by inspection, the manufacturer makes many representations in regard to the product and by that fact

[22] For a description of the plan followed in regard to the use of its "Seal of Quality" see *Certified Merchandise Plan* (Hoboken, N.J.: United States Testing Co., Inc.).

assumes additional responsibility. Thus *caveat vendor*, "let the seller beware," has in a measure replaced *caveat emptor*, i.e., "let the buyer beware." Simply as a matter of effective business policy the manufacturer is willing to accept this responsibility. It is to his interest to see that users get the expected utility from the product. But he wishes to accept the responsibility on his own prescribed terms, which will protect him against unreasonable demands. This he can do by careful definition and by the use of disclaimers which may be defined as "stipulated limitations on the responsibility assumed."[23] These will be explained through a specific example.

The warranty prepared for its members by the Automobile Manufacturers Association furnishes an excellent illustration of a standard warranty. While there is no agreement by the members to use it to the exclusion of other warranties, it is widely used by the industry. The warranty for passenger cars is as follows:

> It is expressly agreed that there are no warranties, expressed or implied, made by either the Dealer or the Manufacturer on motor vehicles, chassis or parts furnished hereunder, except the Manufacturer's warranty against defective materials or workmanship as follows:
>
> The Manufacturer warrants each new motor vehicle, including all equipment or accessories (except tires) supplied by the Manufacturer, chassis or part manufactured by it to be free from defects in material and workmanship under normal use and service, its obligation under this warranty being limited to making good at its factory any part or parts thereof which shall, within ninety (90) days after delivery of such vehicle to the original purchaser or before such vehicle has been driven 4,000 miles, whichever event shall first occur, be returned to it with transportation charges prepaid and which its examination shall disclose to its satisfaction to have been thus defective; this warranty being expressly in lieu of all other warranties, expressed or implied, and all other obligations or liabilities on its part, and it neither assumes nor authorizes any other person to assume for it any other liability in connection with the sale of its vehicles.
>
> This warranty shall not apply to any vehicle which shall have been repaired or altered outside of an authorized Service Station in any way so as in the judgment of the Manufacturer to affect its stability and reliability, nor which has been subject to misuse, negligence or accident.

This warranty is roughly typical of those given by most manufacturers of electric refrigerators, washing machines, vacuum cleaners, scales, oil burners, and other relatively high-value, mechanical products. Some variations between warranties on different products are present and would be expected in stipulations regarding time or use limits and in the remedies provided for in case the warranty is breached. Products differ too greatly for uniformity in these respects,

[23] For a discussion of disclaimers in express warranties see Vold, *op. cit.*, pp. 467–70.

but on other points there is marked similarity. Among the points to observe by way of illustration in the automobile warranty are the following: (1) It is largely protective in nature. It includes a disclaimer of all other warranties expressed or implied either by dealers or by the manufacturer and later reaffirms and broadens the initial statement. The manufacturer, above all else, wants to avoid litigation, and he can largely do so, for "if the terms of the contract are appropriately drawn they may, in the absence of statutory limitations on the power to contract, effectually exclude any warranties."[24] Thus legally the manufacturer can limit his responsibility by use of the warranty. (2) The warranty does not apply if the vehicle "has been subject to abuse, negligence, or accident." Furthermore, (3) the manufacturer reserves the right to determine whether the product is really defective and thus subject to the remedies provided for. The seller is thus, in effect, the arbiter of any dispute between himself and the buyer. These clauses serve as effective protection against unreasonable demands by the buyer where the fault lies not in the product itself but in the manner of use. (4) The warranty is, in fact, one of mechanical perfection and not one of time or performance.

Stipulations in regard to time and performance are included, but these are expected only to cover that length of time or that extent of use during which original imperfections are likely to appear. Obviously, this warranty provision differs from one which warrants that a tire will give 20,000 miles of service. This is approximately the minimum length of service which reasonably can be expected, whereas in the case of an automobile, 4,000 miles or 90 days of use is merely the beginning. The shift from time and performance warranties to those which assure that none of the parts of a manufactured product will within a limited time prove to be defective in material or workmanship has been a clearly discernible tendency during recent years. (5) The only remedy provided for is replacement of defective parts. It does not include the labor necessary to incorporate the parts into the final assembly, nor does it include tires. The Uniform Sales Act remedy of rescission, that is, return of goods with money refunded is denied the purchaser by disclaimers.[25]

The degree of uniformity in warranties is largely the result of conscious effort to standardize these instruments. As new products of a

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[24] Vold, *op. cit.*, p. 469.

[25] The question of whether the warranty of automobile and/or truck manufacturers should include accessories has been argued frequently. While it is true as stated that accessories are usually warranted separately by their respective manufacturers, nevertheless, the purchaser of a vehicle has no contractual relation with the accessory manufacture nor could he hold the manufacturer responsible if his product failed to give satisfactory performance. The buyer contracted for a unit and not for a group of parts, and therefore it seems logical that an automobile company should extend its warranty to the complete product as sold to the purchaser.

mechanical type were being introduced rapidly and as new producers appeared of older product types, there was a large measure of divergence in warranties even for like products. This caused confusion and what manufacturers no doubt considered needless competition. Competition in relation to warranties could and did get out of hand easily. Each manufacturer was prone to exceed the terms given in the warranties issued by competitors. As a result of such competitive moves, the time and performance limits set were often entirely too high and invited unreasonable demands by purchasers. They also may have injured the reputation of certain products in the eyes of discriminating buyers. Furthermore, it is doubtful whether many manufacturers accumulated accurate data on the costs incurred in meeting the claims of users when the warranties were breached, but these costs were substantial. Because of these conditions, trade associations found the standardization of warranties desirable, and formal competition of this type among manufacturers of certain products practically ceased.

Summary. It should be recognized that, as warranties are made more protective, they lose their promotional force. A full understanding of most protective warranties would clearly discourage the potential purchaser rather than aid in making a sale. Manufacturers through association effort may overshoot the mark and protect themselves so fully that a loophole is created for competition to enter through the use of warranties which appear more generous and offer the consumer greater assurance in purchase.[26]

Informal competition, that which finds expression in particularly generous action on the part of the seller toward the buyer when the latter considers that the warranty is breached, still continues. In other words, *the warranty actually sets a lower limit of redress in case of difficulty with a product, but not what the user may finally receive.* The desire for continued goodwill may induce the manufacturer or dealer to exceed the prescribed limits appreciably. Business experience has amply demonstrated that it pays to be at least reasonably liberal with disgruntled users who otherwise may influence adversely a wide circle of potential purchasers. Honesty in dealing with users under

[26] Many tire manufacturers have issued warranties which would be characterized as protective. They were full of "exceptions." For instance, tires on one car were warranted against all accidental injuries except punctures, running flat, damage by wrecks, tire chain, obstruction on vehicle, use of blowout patch, fire, and theft for twelve months from date of purchase, if tires were registered under a special warranty. In contrast, the mail-order houses gave much more generous warranties and featured them in sale. One mail-order company warranted its tire for 24,000 miles of service or for two years of use, and the "exceptions" introduced were relatively few and unimportant. Perhaps the contrast between the provisions of these two warranties may partially have accounted for the success of the mail-order company in making tire sales in the past. Now the tire manufacturers have a standard warranty.

warranties, dispatch in the settlement of claims, reasonably liberal treatment, and other actions which tend to preserve amicable relations between a company and the users of its products are essential elements of good business policy. *Confidence in a company, its policies, and its products, is an immensely valuable business asset.*

SERVICE AND SERVICE POLICIES

Nature of Service

The word "service" as used by businessmen has many connotations. Particular attention to a rush order is considered by the buyer to be good service. The word may be used in connection with the delivery of merchandise, information on retail selling, frequency of solicitation, the maintenance of adequate inventories, the privilege of returning merchandise, and so on. In contrast, it may be used in connection with plans and activities whereby either the use of the product or the product itself is altered so that the consumer may secure the expected utility from it. The first type may be termed "nontechnical" service. It is not concerned with the product itself. Rather, it is a matter of intelligent and purposeful co-operation on other matters with the dealer, or perhaps with the consumer. Service of the second type is of a "technical" nature. When the user of a product, because of his lack of technical knowledge, cannot get the expected utility from it, the manufacturer or his representative must be prepared to aid him to do so.

In the marketing of industrial products the term "application selling" is frequently used. It has been defined as "creative sales engineering" and is concerned with adaptation of the product to the buyer's needs. In the term itself there is the implicit assumption that the thing actually being sold is a service to the buyer and not physical material in the form of machines or supplies. Thus the sales approach is likely to be couched in terms of what the product will do for the buyer and the amount which will be saved and thus available for increased profits through its use. In fact, industrial machines are frequently sold with a guarantee of performance, and thus the responsibility for results is placed squarely on the shoulders of the machine manufacturer. As he is selling service, it is his problem to adapt the product to the buyer's needs and, through continued contact, to see to it that the buyer gets the service which he has purchased. Thus the problem of service enters as an essential part of the manufacturer's activities.

Information as to the nature of technical service work, its development in recent years, and a comprehension of the administrative problems which have emerged can be secured in a realistic way from a statement quoted in a bulletin of the American Management Asso-

ciation.[27] It was made by a manufacturer of turret lathes—a type of machine usually sold with special tools and attachments. It is as follows:

> Free service has gone much farther than we would like . . . over a period of the last 10 or 12 years. It has been so gradual that . . . we have hardly realized what it meant to us in expense. . . . I want to describe briefly the process we follow in making a sale. First, our salesman digs up a prospect. That is to say, he finds, in a customer's plant, room for a new or better machine to do some particular job. While the salesman himself . . . is a trained engineer capable of discussing the job intelligently from a production standpoint, . . . nevertheless, in many cases we are obliged to send from our main office an expert production engineer who secures all of the facts concerning the present production, lays out a new tooling arrangement, recommends the proper machine, figures the customer's new production, and then . . . is obliged to figure the return to the customer on the new investment required to purchase the new equipment. In many cases in the last five years this process . . . has evolved into an exhaustive survey of the customer's entire facilities, occupying in certain cases many days of time of a highly paid, highly trained engineer. Such "surveys," I might say, involve very considerable cost to us. They are returned to the customer in nicely bound typewritten reports . . . and accompanied by blue prints, . . . computed data, etc.
>
> From there on, the process of securing an order is by means of emphasis applied by the salesman to . . . whatever . . . phase of the proposition appears to make the greatest appeal. . . . All of the above you will say is only a highly developed process of selling, but . . . it is a very extended form of service. . . .
>
> Having secured an order, we build up the material composed of a standard machine as a rule, and specially designed tools. All of this material has to be built against a guarantee of production. . . . Today the entire burden of performance is thrown on us. After we have made our production tests . . . the machine is shipped and installed in the customer's plant, and followed by our demonstrator. There comes the greatest item of expense in this division of free service.
>
> Our demonstrator is, as a rule, an unusually well trained operator and well informed shop man. He goes at our expense to the customer's plant and remains as long as it is necessary to secure the production originally guaranteed. . . . Sometimes it involves taking the customer's green operator and . . . training him to become an expert turret lathe operator. . . . This process is all in line with the perfect mania for service that has developed over the past few years in selling everything from groceries to locomotives. Nevertheless, it is one of the items that piles up a tremendous service charge.
>
> The third source of service cost is the one that is most serious and the one which we feel is most unjust. . . . Our demonstrating crew, . . .

[27] J. H. MacLeod, *The Trend toward Expansion of Free Service in Industrial Sales* (Industrial Marketing Series, No. 22) (New York: American Management Association, 1933), p. 6.

salesmen, . . . [or], service men sent out from our Works Production Department are called upon to service our machines whenever they meet with a mishap, no matter whose fault the failure may be. All products are sold with a guarantee against faulty material and workmanship, and against the above-mentioned production estimate. Having performed all of the acts to which we have agreed in the sales transaction, . . . we are called upon six months or a year later to send our man to discover what is wrong and correct the difficulty. . . .

This is a realistic picture of the service problem in the 1930's, as seen by one sales executive. Although there may be some exaggeration in its implications, still it is a reasonably faithful portrayal of the attitude of many manufacturers toward service at that time; and their present attitude is not markedly different. Some of the conditions which create specific problems, such as the excessive cost of service and its abuse by potential customers were mentioned. With this discussion in mind we can proceed to a more formal classification of service work. The basis of this classification is the objective to be achieved. It will be observed, likewise, that it follows a definite time sequence. The classification is as follows:

Survey Work. The objective here is to determine the needs of the buyer in regard to a certain type of product. For instance, prior to the purchase of turret lathes, it was necessary to make a detailed study of the particular needs for such a product within the buyer's plant. As both plants and other conditions of use differ markedly, the problem of each prospective buyer must be studied carefully, and then the equipment must be adapted to solve the problems involved. Survey work is the merchandising activity for technical products. It is frequently called "sales" service, in contrast to other types, which are designated as "product" service.

Installation. The objective of installation is to see that a product is properly placed and ready for use by the buyer. For large special-order equipment, this is of particular importance. A conveying system furnishes an excellent example. If it is properly installed, it will operate with little difficulty over extended periods of time, but with faulty installation a system will give constant trouble. Frequently the manufacturer prefers to sell such equipment completely installed.

Demonstration. The objective of demonstration is to train the buyer or his employees in the use of a product. This is likely to take place after installation. Usually buyers wish to see what a product will do by way of performance prior to purchase.

Afterservice. The objective of afterservice is to aid the buyer if the product fails in performance. During the entire productive life of some products, there is need for the manufacturer and the user to keep in close contact. Both repair parts and expert repairmen must be made immediately available when needed, otherwise there may be

forced cessation of production or, in the field of consumers' goods, of performance. Continuously available service is largely taken for granted, but it is the outgrowth of long experience and carefully formulated plans. When through some administrative breakdown service is not effective, its importance is soon manifest.

Promotional versus Protective Aspects of Service

Service work and warranties are alike in that the objectives of the manufacturer are in part promotional, in part protective. But the protective feature differs markedly. In the use of warranties, the manufacturer attempts to protect himself against unreasonable demands of the purchaser. Through provisions for service work he protects himself primarily against dissatisfaction of the user and word-of-mouth advertising to the effect that the manufacturer's product is not an acceptable one. The manufacturer simply cannot afford to have his products poorly adapted to the user's needs, poorly installed, ineffectively used by operators, and out of repair frequently. From a long-range point of view, a lack of effective service is equivalent to business suicide. But manufacturers have not been loath to institute the necessary service work. Their chief difficulties have appeared in its administration and in keeping service within due bounds. Because it has been used as a promotional weapon and, because it is costly, manufacturers have been prone to use it too much and without adequate payment on the part of the product user.

As a promotional weapon, the manufacturer assures the potential user that he, the manufacturer, has both the will and the way to see that the product gives the expected utility. He points through advertising and in conversations with the prospective buyer to an extensive service organization, with trained specialists, perhaps engineers, chemists, packaging experts, or designers, who may be placed at the buyer's call to solve his particular problems. If, for instance, a prospect should say that he could not use a product such as Cellophane or metal foil for packaging material because there was no machine to handle it properly, the manufacturer's representative would probably say that the company's engineering specialists would aid him in finding the correct machine or in adapting his present machines to use the new material.

The prospective buyer may be keenly aware of his own inability to cope with the problems which are likely to arise, particularly in connection with new technical products. He is likewise aware of the risk involved and needs assurance. Thus a developed organization for service work and tangible evidence of how it has worked effectively for other concerns create additional confidence in the seller. At times the promotional appeal in service is so successful that the product to

which the service may apply is largely removed from price competition. The buyer may be made to believe that he is getting more by way of utility, even though he pays more initially for one manufacturer's product than for another's. He is actually purchasing what the product will do, rather than so much physical material.

Factors Which Affect the Service Problem

The service problem of a particular manufacturer may fall into any one or all of the four categories mentioned previously. They are not of equal importance for all products. For some products there is no problem in installation; for others afterservice is relatively unimportant. A product such as conveying machinery or other expensive, special-order equipment will run the whole gamut of service. For office equipment, survey work may or may not be important, demonstration is usually needed, and afterservice work is highly important. For household equipment, demonstration and afterservice are most needed. For supplies which are sold to industry—for instance, lubricating oils, solvents, steel alloys, synthetic plastics, or technical paints—survey work to determine just what product will most fully meet the buyer's need is by far the most important part of the service task.

The amount of service work is likely to vary directly with the complexity or technicality of a product. Highly technical products are likely to need all types of service. Furthermore, more service is needed if the product has to be varied to meet the buyer's requirements, i.e., if it is special-order equipment rather than standardized units. Some products are more fragile and subject to abuse than others and thus require attention. New products with which the buyer is not familiar or products which are being changed frequently require more service work of all types than do established products. Although great care may be used, units of product may reach the final consumer with imperfections in design and thus give trouble. Many automobile users, for instance, hesitate to purchase a model soon after it is introduced, for they fear that something has been overlooked and, as a result, that they will be subjected to inconvenience and expense. For new products, in contrast to those which are redesigned periodically, the adaptation problem, installation, and demonstration are all enhanced. Furthermore, there may be more likelihood of imperfection and thus the need for afterservice.

Both the type of buyer and the nature of the market affect the service problem. Large buyers, such as railroads or mining companies, may accept the responsibility for service and thus, to a certain extent at least, relieve the manufacturer. They are informed buyers, they purchase in large quantities, and they are likely to maintain their own

repair shops. A mining company may purchase pneumatic drilling machines in lots of 50 or more, whereas a small city or company may purchase one at a time for breaking up concrete or for use in excavation. A mining company would probably carry a complete stock of service parts and repair the machines in its own shops. Thus the manufacturer's service problem would be simplified. In contrast, some provision would have to be made for servicing individual machines, and this consists of making available repair stocks and possibly individuals who are trained to do the necessary work.

The contrast is even more apparent when geographical market factors are considered. The market for products which require technical service may be concentrated or widely dispersed. If a product is sold only to one industry and that industry is concentrated in one or a few areas, then the servicing problem is less difficult. The mining of nonferrous metals and the production of automobiles are cases in point, although in the latter instance there is more dispersion of manufacturing activity than there was formerly. For computing machines or small pneumatic tools the market is widely scattered. Small businesses and governmental units use such equipment, and, because of their widely dispersed locations, the service problem becomes much more complicated. When the market for producers' goods is so widely scattered, it takes on the characteristics of the market for consumers' goods, both in sale and in service. Passenger automobiles and electric refrigerators, for instance, are usually purchased singly, the buyer is not technically informed, and he is usually unable to make other than minor repairs. These conditions enhance the service problem. Standardization of products, lack of technicality or complexity in products, little need for product adaptation to demands of particular consumers, and a preponderance of informed buyers and users simplify the service problem.

Charging for Service Work

First, it should be recognized that service must be charged for in some manner or result in a decrease in profits. If the manufacturer does not make a separate charge for service, then it is likely to appear in the supply price for the product. So-called "free service" is not actually free unless the manufacturer unwittingly fails to increase the price as he increases the service given to purchasers when he could have done so without adversely affecting volume. When service work is extended without price increase, it is likely that competition forced such action. On the other hand, offering additional service work might increase the volume of business to such an extent that the same price could be charged and profit margins could still be maintained or increased through the spread of overhead costs over a greater quan-

tity of product. Under such a condition one might reason with some justification that the service given was free. At least, the buyer would receive the additional service without an increase in the price of the product.

Manufacturers at times have increased service work, maintained prices, and expected an increase in business which has failed to appear. There are many cases on record in which a decreased profit has been attributed to the high cost of service work. Obviously, if all manufacturers in direct competition increased the service given without a compensatory increase in the prices of their products, the result might be a decrease in profits. This would necessarily be the result unless the total volume of sales increased. Industrial machinery and equipment has a derived, rather than a direct, demand, and thus promotional work through service may increase the business of one company, but it is not likely to increase the total volume of business for all competing companies. If the individual manufacturer does not recognize the fact that higher service costs may reduce profits, he may not increase prices as such costs are increased. In time, nevertheless, service costs are likely to appear in the supply price of products or as separate charges to service users.

Companies which have increased service and used it as a promotional weapon may find that the expected increases in business have not materialized and that, in the meantime, profits are being reduced because of service costs. They then may realize that service without direct charge is one of those sales activities which get out of hand easily and that its costs may be partially overlooked. The lack of adequate service-cost records may have obscured the costs involved. Furthermore, there may be increasing evidence that potential buyers are abusing the service privilege, particularly of the survey type, by taking the plans prepared at no expense to them and using these plans to solicit bids from other suppliers. Unless there is a definite understanding as to the extent of free service which will be given, buyers may likewise be unreasonable in their demands for demonstration and afterservice work. In one instance a piece of apparatus had been in use for 10 years, and yet the manufacturer was asked to make certain repairs on it free of charge. A request of this sort should never get beyond the company representative to whom it is first made. He should take a positive stand and should have no difficulty in proving that the request is entirely unreasonable. When evidence of the adverse effect of service on profits and of the abuse of service accumulates, the need for a thorough study of the service problem becomes apparent.

Various policies are followed in relation to handling service charges. In the majority of cases, however, no charge separate from that included in the product price is made for survey work. Installa-

tion and demonstration are more generally charged for separately. Some products are sold installed, as the buyer insists on shifting the burden of installation entirely to the seller. Separate charges for demonstration are the exception, rather than the rule, for technical office equipment. Subsequent to the termination of the warranty period, afterservice is habitually charged for separately. There are few cases, however, in which all types of service are designated as "free" or in which all types are charged for separately. Rather, the usual situation is a mixed one. In making decisions on these charges, however, certain desirable objectives should be kept in mind. In so far as it is possible to do so, a varying price policy should be avoided. Discrimination between buyers through the medium of service work is not unusual and is not productive of healthy business relations. It may injure a company in its competitive position in reference to other potential buyers. Another objective is to seek protection against the abuse of the service privilege on the part of the buyer and, possibly, against the seller's own misuse of his service organization without returns either by way of promotion, goodwill, or actual funds adequate to justify the cost incurred.

There are certain guideposts which should aid the manufacturer in making his decision as to whether service should be charged for in the price of the product or separately. These will be stated in the form of questions, although they might easily be re-worded into generalizations. They are as follows:

1. *Do all buyers need and use the service offered?* If certain customers have their own specialists and thus do not use the service which the seller stands ready to furnish, the products which they buy should not be burdened with additional price because of service rendered to other buyers. Charging such customers for service is tantamount to a varying price policy, as these buyers are thus forced to pay for something which they neither want nor get.

2. *Is service needed and used by buyers in proportion to the size of their orders?* If all buyers use service in the same amount and the business which they give the seller varies widely, the result is a varying price policy. If, on the other hand, the service used varies directly with the size of the order, no discrimination between large and small buyers is likely to appear.

3. *Is it to the interest of the seller to have all buyers use the service offered?* For instance, a buyer may prefer to do his own installation work. It may be the experience of the seller, however, that such work is not done properly by the buyer and that the machine performs ineffectively later. Under such conditions, the seller may prefer to install the product. The installation charge ought then to be in the price of the product.

4. *Will the cost of service work be a negligible part of the product price?* If so, there will be little discrimination, even though all buyers

do not use service work. Then the administrative difficulties of charging for service separately are avoided.

5. *Is the service work likely to have an important merchandising function?* In certain cases, service work, particularly of the survey type, furnishes a company's executives, salesmen, and merchandising men with information which may later be utilized to meet the problems of other buyers, for designing new products, or for adaptation of old products to new uses. This is well illustrated by the experience of a concern which sells industrial cleaning materials.[28] "The detailed reports supplied by our men form a unique library of technical data on cleaning. It is not permitted to become a mere storehouse of data. The information is classified and edited so that it is always available, and is actively used by the technical and service departments in developing new and improved materials and methods." In a very real sense the survey work of this company yields information which benefits numerous buyers rather than only the specific one to whom the service was originally given.

6. *Is the service work needed for all the company's products?* If service work is needed for only certain products in a company's line or if it is needed in differing proportions, either it should be charged for separately or care should be taken to raise the price of only those products for which the service work is incurred. Otherwise, certain products may be made noncompetitive as to price.

7. *Is the product a new one with which potential buyers have had no experience?* Under such a condition, service costs are of a developmental nature. When uncertainty about the product weighs heavily against sale, the buyer would be very loath to pay separate charges for service. Furthermore, service costs during the initial periods of sale in all probability would not be loaded onto the units of product then sold. As a developmental expense they would be amortized in the price of the product over a longer period.

On the basis of considerations brought forward by these questions, a rough generalization on this matter of service charges may be formulated. To the extent that all buyers need and use the service offered and in direct proportion to the size of their purchases; to the extent that the seller wishes to force the use of service; to the extent that the costs of service will be a negligible part of product price if they are included within that price; to the extent that the service work performed has an important merchandising function; to the extent that the service work is needed by all the company's products and in like proportion; and to the extent that service costs may be considered as developmental costs, service can more reasonably be charged for in the price of the product. To the extent that the opposite conditions prevail, there is more reason for making separate charges in proportion to use.

[28] H. J. Douglas, "Service Leads to Sales," *Executive Service Bulletin*, Vol. XIII, No. 2 (New York: Metropolitan Life Insurance Co., November, 1935), p. 6.

From the administrative point of view, the problem is a perplexing one. Even when conditions of product and market point clearly to separate charges for survey, installation, and demonstration, companies shrink from imposing such charges on the buyer. They are fearful of the reactions of the buyer and of what competition may do. This is particularly true for charges for survey work. Thus various compromise plans are used which are less objectionable from the promotional angle but which either recover some of the service costs or reduce the amount of such costs. In one instance a manufacturer of conveying machinery expressed his willingness to make a preliminary survey at no cost to the potential buyer, but later, if the buyer wished a thorough survey with drawings and detailed plans, a definite charge was provided for and payment was to be guaranteed.

Sellers at times request assurance of purchase before the survey work is started; but, unless the seller is in a very strong position competitively, such a demand may seriously jeopardize the possibility of sale. A more common policy is to establish limitations on free service, with variations in proportion to the size of the order. This has the virtue of nondiscrimination, and it is easily understood by the buyer. If conditions in a company's plant are such that installation presents some unusual problems, the buyer should stand the additional costs incurred by the seller in making installations. Or if a buyer demands the services of a demonstrator over an usually long period because his operators are less familiar with the equipment than those of most other buyers, again he should stand the additional costs incurred. If such limitations are placed on free service and the buyer is fully aware of them, that very fact will prevent abuse. His avarice is not allowed to have full play.

Arrangements with industrial engineering concerns have been proposed whereby the concern is induced to suggest a company's products to its clients. This might lessen the necessity for a company to do survey work for potential buyers. But companies want disinterested advice from concerns which sell engineering service, and tie-ups between engineering concerns and equipment makers might be productive of bias toward a maker's product when it was not the best product for the client. Survey costs have been reduced indirectly at times through a reduction in salesmen's commissions. Specialists are frequently made available to a salesman if the problems of the potential buyer are such that a greater degree of training and ability than he possesses are needed to solve them. If the salesmen are paid on a commission basis and must call in help to make a sale, it is only reasonable that their commissions be reduced. Some of the cost of the specialist's work would thus be recovered. At least such an approach might deter the salesmen from using the services of specialists when they were not needed; but it also might deter use when they were needed.

Afterservice is likely to be needed by all buyers of technical products, but not necessarily in proportion to the amount of product in use. It is in part an outgrowth of the degree of mechanical perfection of a unit of equipment at the time of sale. During a period in which mechanical defects should appear, the buyer is protected by a warranty, and the service required is and should be in the price of the product. It is also in part an outgrowth of the *manner* in which the product is used. A piece of technical equipment is subject to abuse by the operator; also one concern may use a piece of equipment almost continuously, whereas another concern may use it intermittently. Thus the need for service work is marked by variation as between product users, and the responsibility for a greater or lesser need is on the shoulders of the user rather than on those of the manufacturer.

This condition points strongly to a separate charge for each use of service. In addition, this conclusion is strengthened by the fact that the cost of the service is not likely to be a negligible part of the product price, if included therein; that afterservice is not likely to have an important merchandising result; and that it is not likely to be needed proportionately for all of a company's products. After the warranty period and, perhaps, some slight extension in order to hold good will when the buyer is insistent that through no fault of his own the product is not giving the expected utility, manufacturers habitually charge for afterservice. Only when the product is leased to the user is the manufacturer likely to charge for afterservice in the price of the product. In fact, all service is charged for in the price for the use of the product, for the physical product itself never becomes the property of the buyer under a lease arrangement.

Some concerns may approach the problem through an attempt to reduce service costs. A simplification of products or a concentration of attention on those parts of the line which require the least by way of service may achieve this goal. If service costs are properly allocated to the different products in a line, some items might be actually unprofitable, and the company might be better off without them. More complete and detailed written instructions in regard to use and repair of a machine may reduce service costs. Finally, the service given should be reviewed periodically to ascertain if it could not be reduced without jeopardizing the position of the company. Unless costs are watched closely, service work may grow like Topsy, and an unrecognized cost may result in lessened profits.

Organization and Administration of Service

Organization for service may involve as many and as difficult problems as organization for sales. The number of people engaged in service work may be considerably greater than in sales work. One office-

equipment concern had 50 per cent more people in service than in sales and found that the selection, training, and supervision problems connected with each group did not differ markedly either in kind or complexity. In this instance the company performed its own service work, but in others service work is delegated to independent dealers, and then the problems of organization and supervision become even more difficult to solve satisfactorily. Problems of supervision and control in their application to service will be touched on briefly at this point.

Effect of Service on Channels of Distribution. The need for service is a factor of no little importance in the selection of distributive channels for a product. Because of it, the manufacturer may decide on a greater measure of directness in distribution than he otherwise would. He may eliminate the wholesaler or jobber and go direct to the retailer because he thinks that service can be more adequately controlled through more direct contact. He may go further and sell his product only through exclusive agencies, as the automobile companies do. He is then dealing with a smaller, more selected group of dealers, and, as he has given them the exclusive right of sale in a certain territory, he can demand more of them by way of sales activity and provision for service. If this measure of directness does not suffice to get the activity in selling and the adequacy of service which he feels that his product demands, he may establish his own retail outlets and thus substitute orders to company employees for persuasion of independent retailers. This has been the decision, for instance, of the Singer Sewing Machine Company, and the high order of service to housewives given by the Singer stores could not or would not, in all likelihood, be duplicated by retailers, even if they were given exclusive agencies.

In the sale of industrial equipment likewise, the need for service is conducive to more direct distribution. Jobbers and manufacturers' agents are relatively ineffective in service work, and thus there is additional motivation toward direct sale. Frequently, representatives of the manufacturer are called in for consultation prior to sale or for demonstration and afterservice work, even though the equipment is sold through intermediaries. If the manufacturer does such work, then it is only a short step to direct sale as well as service.

Location of Service Work. The location of service work is largely conditioned by the nature of the product and the density of its use. Even survey work for some machinery and equipment may largely be done at the home office of the seller. After the salesman has made a preliminary survey of a buyer's needs, sales engineers at the home office may decide upon the best methods of handling the customers' work, prepare the necessary drawings, design tools to be used in special machines, and make time studies for guidance of the buyer. For

other types of equipment—for instance, conveying machinery—survey work must largely be done at the plant of the buyer. It is a question of adapting a product to a given setup of physical conditions, and these must be the subject of constant study. Demonstration is likely to be at the plant of the buyer, although operators may be trained elsewhere. Installation, of necessity, is at the location of the buyer.

Afterservice work may be done in a number of locations and by different agencies: by the producer at the factory, at regional service stations, or at the location of the user; by local dealers in the product; by local artisans; or by the buyer himself. Whether a product should be repaired at the point of use or at the point of origin largely depends upon its characteristics. Some products can be returned to the factory for repair, others cannot. For instance, products such as cash registers and computing machines are easily movable, whereas engines and lathes may be set in concrete. Likewise for the former, transportation costs are not particularly high in relation to the value of the product, and the presence of highly specialized equipment and factory-trained personnel may be needed in order to make repairs satisfactorily, at least for an overhaul job.

Afterservice for office equipment, other than slight repairs, is done at the factory or at the service stations connected with regional offices. Which of these locations is chosen depends, in turn, on density of use. If there are enough machines in use and thus a sufficient volume of repair work to be done, the manufacturer can afford practically to duplicate the factory setup for repair work at regional offices. Whether the manufacturer should do the repair work through his own representatives or delegate the work to others likewise depends upon the characteristics of the product. For a highly technical, special-purpose machine only skilled individuals who are trained at the factory can be used. When less skill is needed, the work may be delegated to others, for instance, to exclusive agents, or the buyer may be able to do the work himself.

Control of Service in Distributive Outlets. The control of service in distributive outlets involves, among other things, provision for adequate training in relation to the product. Obviously, a dealer or his sales or servicemen cannot demonstrate, install, or repair a product unless they know it thoroughly. Still, despite the efforts of manufacturers, it is at this point that retailers and other distributors frequently fall short of the desired proficiency. Control must also be exercised over the equipment used in service and the stock of repair parts carried. These matters cannot be left to the discretion of independent distributors. Controls must be devised to govern this matter of parts stocks, and constant supervision must be exercised to see that they are made effective. Few things are more destructive of goodwill than

having to stop production while a machine part is procured. This is especially true if the difficulty can be traced directly to negligence on the part of the machine producer or his representatives. Inability to use an automobile or a washing machine because some dealer has failed to maintain his repair stocks has a like effect, and, if it is repeated too frequently, subsequent purchases are likely to be of another make. Control may also be exercised over service costs to equipment users. Standard costs are used for some items of repair in the automobile industry, ostensibly, at least, to protect the user. Perhaps they do serve as protection against excessively high charges; but, inasmuch as they have the approval of authority, they also protect the dealer, as they allow him to charge what is likely to be a reasonably generous amount. In other words, control over parts and service charges to the user is one means of maintaining a financially healthy group of dealers, and this is of first-rate importance to the manufacturer.

Home-Office Organization for Service. Frequently, departmental units in the home office or possibly in district offices follow roughly our general service classification. This is actually specialization on the basis of the task to be performed. In one concern which sold grinding machines, there were four departments under the sales manager, each of which was headed by a sales engineer. One of these departments made recommendations to customers as to the machinery which should be used, designed special attachments to meet specific needs, figured costs, and made time studies; the second handled all correspondence with customers, interpreted orders, and acted as a co-ordinating agent with the production departments; the third was in charge of all demonstration, installation, and afterservice; the fourth handled the details of office management. This department setup had much to commend it. The first unit was freed from details and could devote itself to merchandising work. Customer contacts were centered in the second unit, and an agency was provided whereby co-ordination between production and sales could be achieved. The third unit was in charge of the field service work; and, as these three types of service required men of the same training and ability and since they needed co-ordination among themselves, inclusion in a single departmental unit was good policy.

Other concerns largely separate their sales and service work in their organizational structure. Although there is likely to be co-ordination through one ranking executive at the top, farther down there is much independence in action. While there must be a certain amount of co-operation between departments handling sales and service work, still a certain degree of independence between them may protect the position of the product-user. The service department should be willing to give a disinterested appraisal of the condition of a machine, and

this is difficult if the same department or the same people are likewise charged with the responsibility of making sales. There appears to be much reason for divorcing sales and service along departmental lines for such products as cash registers, computing machines, automobiles, and some household appliances. Not only will the user be protected, but the essential differences in the task involved make such action advisable.

Suggestions for a Service Policy

1. Adequacy of Service. When the buyer cannot get the expected utility from a product entirely by his own efforts, it should be the policy of the seller to provide for adequate service. *Adequate* in this instance should connote service which avoids as much inconvenience and annoyance for the buyer and as much interruption of work as possible. Furthermore, the work involved in service should be so arranged and administered that it is done at a reasonable cost. Still it should be recognized that ready availability of service and reliable service work are much more important than low cost. People, in general, are not averse to paying a reasonable charge, perhaps even something in addition, if they can be sure that the work is done properly and that their troubles with the product are thus over for the meantime. On the other hand, few things are more irritating to the user and more destructive of confidence than to discover, subsequent to the performance of service work, that the difficulty with the product has not been overcome. In order to protect the reputation of its products, a company should have adequacy of service, with all that that term suggests, as the cornerstone of its service policy.

2. Definiteness of Policy. The need for a definite policy on service should be stressed. Perhaps it is more needed for service than for any other activity of a business enterprise, for service of the survey type is a promotional weapon which has customarily been used indiscriminately. Like any powerful weapon for influencing the potential buyer, it can be used to excess and, furthermore, is likely to be so used for those products which are not characterized by an expansible demand. As the value in service work is very apparent to the buyer and, seemingly at least, he may be getting it without charge, use beyond the seller's expectations, even beyond his wishes in the matter, has not been unusual. Any activity in business which gets out of hand so easily needs careful study in order to create a definite policy and to establish procedures and controls which will put that policy into effect.

3. Definiteness in Arrangements. An effective service policy should also comprehend definiteness of arrangements between the seller and the buyer, even in some cases prior to survey work. All services for

which no definite charges are to be made should be carefully defined as to nature and scope. If charges are to be made for portions of the service work, the buyer should be so advised, and every effort should be made to establish the fairness of such charges. By such definiteness and prior knowledge on the part of the potential buyer, the seller can, at least partially, be protected against unreasonable demands and the abuse of the service privilege. The buyer likewise is protected, as he can more readily judge the value of the products and services contained in competing proposals. He needs definite information in regard to what each bidding company proposes to do in order to arrive at an intelligent decision regarding purchase. Ease of administration is another likely outgrowth of definite arrangements and an established service policy. There must be standards for guidance of those individuals who handle service matters, for otherwise each particular arrangement or complaint will require executive attention. This is the chief virtue of a settled policy and of established procedures for putting a policy into effect.

4. Nonvarying Price Policy. Service should be administered and charged for in such a manner as to avoid a varying price policy. While this should be done as a matter of policy, it should be recognized that all price discrimination cannot be avoided, especially when people buy a product under dissimilar conditions and require service in varying amounts. It is not wise to attempt to remove all price discrimination, as small variations are unimportant. An attempt to do so would unnecessarily complicate the price structure and prove administratively difficult to handle. Still, it should be a company's policy to administer service in such a manner that varying price is at least largely removed when conditions are such that substantial variation is likely.

5. Policy Based upon Adequate Records. Policies should be based on experience as well as on deductive reasoning, and adequate records are thus essential if a concern is to act rationally in relation to service work. Experience resides in records and in the minds of men. The former are much more likely to be exact and uncolored by reactions to very recent experience. Those who are responsible for service should know what proportion of service costs are incurred for different types of machines, types of customers, and the relationship between costs and the size of the order. They should also attempt to find out the effect of service work on subsequent purchases by the same buyers. Such information, if used, will aid in the pricing of products; in determining whether a separate charge for service should be made; the amount of the charge, whether for survey, installation, demonstration, or afterservice; the promotional advantage of service; and, perhaps, will furnish some evidence as to the aid given in merchandising work. Only through adequate records can a company know

whether, in fact, a varying price policy is being followed and thus be able to reduce the extent of variance by appropriate action. In general, complete information on service costs is likely to result in more acceptable decisions on the part of management through lessening the area in which hunch and guesswork have their way.

REVIEW AND DISCUSSION QUESTIONS

1. Consider in some detail the reasons behind the assumption of greater responsibility by the manufacturer in recent decades for his products subsequent to their sale. Would you agree with the assertion that *caveat vendor* has largely replaced *caveat emptor* in the relations between buyers and sellers in the United States during the twentieth century?
2. The warranty and service problems of manufacturers are largely the outgrowth of their inability to produce a completely standardized product. Do you agree?
3. Define a warranty. Distinguish between *implied* and *express* warranties. May express warranties be given verbally as well as in written form?
4. Under what conditions is the seller relieved of implied warranties as to suitability of product for use and merchantability in distributive outlets? Which of these conditions serves as the greatest protection to a manufacturer of consumers' goods?
5. Are the promotional and protective aspects of warranties necessarily in conflict? Are the two types of warranties mutually exclusive?
6. What was the significance of the action of the Federal Trade Commission against *Goodhousekeeping* and its "Tested and Approved" seal of approval (Docket No. 3872)?
7. Manufacturers frequently have attempted to limit their liability under a warranty with respect to accessories and parts included in their final assemblies but made by other concerns. What are the grounds on which they base their unwillingness to assume responsibility? Is their position a defensible one?
8. What conditions are responsible for the development of standard warranties such as those of the Automobile Manufacturers Association? What objectives do trade associations expect to attain by the adoption and continued use of such warranties by their members?
9. What important considerations have a bearing on warranty and service policies which make their formulation and administration difficult?
10. The term "service" may have either a general or a more specific meaning when used in business parlance. Characterize the nature of service under each.
11. Service extends considerably beyond the confines of warranty provisions. Comment.
12. Characterize the general problem involved, perhaps in terms of objectives, of determining charges for service work. It has been sug-

gested that this is a problem of diplomacy rather than one of economics. Do you agree?

13. Any unbiased analyst would probably conclude that, in view of the problems involved, service work, in general, both on consumers' durables and on machinery and equipment in the United States, is excellent. What arguments can you advance either to support or deny this assertion?
14. What records should be kept in relation to service work for the future guidance of management? What errors should the information secured from service records help management to avoid?
15. In the office equipment industry, some of the conditions which affect the problem of providing adequate service are the following:
    a) The greater share of the products manufactured are technical and require service.
    b) Individual companies may produce many products of varying size and complexity.
    c) The owner, through his own efforts, cannot service the equipment satisfactorily.
    d) Equipment is used with varying intensities and under varying environmental conditions.
    e) The market for the equipment is widespread, both geographically and by buyer type.
    f) Both emergency calls and regular service calls are needed if the equipment is to be kept in good condition and at work.
    g) Product development and improvement is characteristic of the industry.
    h) Supplies are needed for use with the machines, at times of unusual or distinctive type.

    With these conditions of product and market prevailing, suggest both service policies and procedures which, in your opinion, would be acceptable both to the manufacturer and the product user.
16. In the late thirties, a truck manufacturing company developed a motor which would stand up on long trips at sustained high speed. This motor was used as standard equipment on certain models and was available on others at additional cost. Inquiry of owners of trucks in which this motor was installed indicated that, almost without exception, their trucks had traveled 100,000 miles or more, and many of them 250,000 miles or more, without major repairs. Little, if any, repair work had been needed during the first year of operation.

    With this assurance of performance, the company decided to deviate from the standard truck warranty of the Automobile Manufacturers Association which covered 90 days or 5,000 miles of use, whichever event first occurred. In contrast, the company issued a warranty which covered 12 months or 100,000 miles of use. Otherwise the two warranties were similar in that they were basically warranties of mechanical perfection rather than of performance as such. The warranty specifically stated: "This warranty shall not apply to any vehicle which shall have been repaired or altered outside of our factory in

any way so as, in our judgment, to affect its stability or reliability, nor which has been subject to misuse, negligence or accidents, nor to any commercial vehicle made by us which shall have been operated at a speed exceeding the factory rated speed, or loaded beyond the factory rated load capacity." There was a disclaimer of any responsibility under warranty for a large number of parts and accessories inasmuch as they were usually warranted separately by their respective manufacturers.

The new warranty was put into effect and widely publicized through national advertising. In one issue of *The Saturday Evening Post* in which an advertisement appeared featuring the new warranty, another advertisement likewise appeared only a few pages distant in which a weak member of the automobile industry featured a warranty on a new, low-priced passenger car of 100,000 miles or three full years of use.

Would the company's warranty time extension attain significant promotional advantages? What difficulties might arise in its administration, particularly in reference to relations with dealers?

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Chapter XVI

ADMINISTRATION OF SALES PROGRAMS AND CAMPAIGNS

THERE has been a tendency in recent years to emphasize the distinction between planning and execution in sales management. In part, this tendency was an outgrowth of the belief that planning has been neglected in the past, that sales executives have often failed to spend sufficient time and effort on the planning phases of their over-all tasks. This belief was reflected in further specialization of personnel, some in planning, others in execution. At times, planning departments were even set up as a part of the organizational structure. This emphasis on planning was a healthy development, for it was needed if there were to be well-integrated, workable sales programs. Nevertheless, in actual practice, planning and execution merged into each other and it was difficult to ascertain where one stopped and the other began. Nor was it important to do so. The value of the concept remains, for it has given direction to managerial thinking and has often resulted in a better distribution of emphasis on the various parts of the sales management task.

Some of the managerial problems which we will now consider are in the later stages of planning or, perhaps, on the borderline between planning and execution—for instance, the problem of timing or scheduling of various parts of the sales program or campaign. Others, such as administrative co-ordination, executive direction, and co-operation with direct buyers or distributive outlets, are more nearly execution as such. Whatever the nature of the sales program or campaign, these problems are present, but in varying degrees of importance and urgency. They are particularly apparent in the annual sales programs of those companies which bring out new models annually and in sales campaigns for new products. For this reason, illustrations will be taken from the automobile and household equipment industries. In these industries, as in many others, the exercise of the managerial functions of assignment and review, co-ordination, and stimulation through leadership has full sway in the conduct of sales programs and campaigns.

SCHEDULING SALES PROGRAMS AND CAMPAIGNS

After decisions have been made on what means will be used in carrying forward a sales program or campaign, the pertinent question of scheduling arises. The problem involved is to use the means provided most effectively over a given period. This in turn is a reflection of their basic interrelationships. Take, for instance, the time relationships between advertising, personal selling, and physical supply of merchandise. The advertising must first be prepared and, initially, perhaps, in a form which the salesmen can carry with them and show to dealers as tangible evidence of the help forthcoming in selling any merchandise purchased. After orders have been taken, the merchandise must be delivered and thus available for sales to consumers before the advertising appears, particularly if it has been placed in local media. While this illustration is a relatively simple one, the need for careful scheduling becomes apparent. As most programs and campaigns involve the use of many factors in combination, the "when" question is often a difficult one to answer.

An Illustration—Sales Campaign Scheduling— The Studebaker Corporation

Factual Material. The Studebaker Corporation decided to add a low-priced car to its line. Therefore its engineering staff was instructed to design a car—on which would have sufficient distinctiveness and appeal to compete successfully with those produced by larger companies. A survey had indicated that the small car buyer wanted economy, but that he would sacrifice very little in the way of comfort, appearance, or performance to secure it. In 1939 the car was ready for manufacture. A substantial amount had been spent on designing and on retooling the plant for its production. As the Corporation planned to stake its reputation on the new car, it was of the greatest importance that the introductory promotional campaign should be soundly conceived, well-co-ordinated and capably administered. The task of promotion was a difficult one, in view of the strong competition by larger companies in the industry, because the car was new and untried and because sales had to be made through a dealer organization which was unfamiliar with the problems of selling in the low-priced car field.

The sales program, as developed, was in three phases: (1) promotional activities preceding the introduction, (2) promotional activities accompanying the introduction, and (3) continuing promotional activities. Each of these will be considered in turn.

Promotional Activity Preceding Introduction. The objectives of

promotion at this stage were as follows: (1) to sell the idea of the new car to present dealers, (2) to enlarge the dealer organization, (3) to educate both new and old dealers in the selling of a low-priced car.

The principal steps taken in this phase of the sales program, together with the time in which they were taken, were as follows:

1. A Preview for the Press. February 15. Representatives of magazines, trade papers, newspapers, and the radio were brought to the home office and given a general background story on the new models.
2. Sales Contest on Older Models. February 21—March 2. In order to induce dealers to continue their sales efforts on the company's more expensive models, the sales department announced a $35,000 sales contest to run through this ten-day period. Dealers were also urged to continue their sales efforts in the company's weekly house organ.
3. Conference with Regional and District Sales Managers. March 1. All regional and district sales managers were brought to the home office for a series of instructional and inspirational meetings. The objective was to familiarize the men with the features of the new car and to stimulate their interest and enthusiasm.
4. Promotional Material to Dealers. March 6. All dealers were sent a booklet with copy in the nature of "teaser" advertisements. No specific information regarding the new car was given. Suggestions were made of appropriate actions which the dealer might take in preparation for the new car's introduction to the public, among them renovation of his sales rooms, recruitment of additional salesmen, preparation of prospect lists and the conduct of a local "teaser" advertising campaign. The Corporation sent to each dealer a catalogue of special promotional material such as pennants, banners, placards, window trim, flags, and bunting. Dealers were urged to purchase enough of this material to convert their showrooms into advertising centers at the time of the new car's introduction.
5. Meetings with Dealers. March 6–25. Meetings with dealers were held at important distributing points throughout the country. The program was planned by a home office staff and presented by groups of the Corporation's sales executives. Invitations to attend these meetings were also sent to prospective dealers and competitive dealers, representatives of finance companies, and to newspaper and magazine staff personnel. These meetings were conducted with all the showmanship of a floor show. The program included a luncheon, orchestral music, community singing, talks by the Corporation's executives, the showing of a new promotional film, and the unveiling and inspection of the new car.
6. Meetings with Dealers' Salesmen. After (5)—before March 26. At the district meetings the dealers were instructed to hold similar meetings with their salesmen so that they would be adequately prepared for the new car introduction. Materials for these meetings were furnished to dealers.

7. Training of Dealers' Salesmen. After (6)—before March 26. Dealers were provided with materials which gave a thorough description of the new car and of all of its leading competitors, including exact specifications. They were instructed to hold a series of nightly meetings with salesmen to study and master these specifications. An examination for salesmen was given on these specifications. All examinations had to be sent to the home office before the dealer was furnished a display car. For the purpose of improving the selling technique of the salesmen, the Corporation prepared sound slide films illustrating approved selling methods. These were sold to dealers. They were advised to show the films to their salesmen repeatedly so that the techniques suggested would be fully absorbed and habitually used.

Promotional Activities Accompanying Introduction. The most important element of this second phase of the program was the synchronization of its various parts to get the maximum total effect. The achievement of this objective was complicated by the fact that it took about three weeks to complete all the meetings with dealers and, as a result, dealers in different parts of the country were in different stages of the program.

8. Shipment of Display Cars to Dealers. Immediately after (7)—before March 26. By March 26 almost all dealers had display cars in their show rooms.
9. Preview Showing of New Car. After Receipt of Car—before March 26. Between the time the display cars were received and the announcement date the Corporation permitted dealers to hold private previews for invited guests whose names had been included in prospect lists previously submitted to the sales promotion department. Before the previews the Corporation sent to each prospect a descriptive mailing piece on the new car, together with an invitation to attend the preview. A special issue of the Corporation's bi-monthly house organ was prepared which contained pictures and news of the new car. These were sent over the dealer's name and at his expense to prospects.
10. Free Publicity. Around March 26. The general background story of the new car was given to the press on February 15. A request was then made that all details be kept confidential until the general advertising was released on March 26. When releases were finally made stories were carried in several of the popular magazines.
11. Public Announcement of the New Car—a Barrage of Publicity. March 26—April 1. Newspaper advertising began on March 26, magazine advertising in the first issue thereafter, and radio advertising on April 1. Full-page advertisements, mostly in color, were placed in all large city newspapers and in all the leading popular magazines.
12. Promotional Aids for Salesmen. March 20–26. In order to provide the salesmen with visual aids to arouse and maintain the interest of

prospective buyers an 83-page booklet containing 223 colored illustrations of distinctive features of the new car, along with discriptive text material was made available. Each salesman was furnished with five copies of this booklet for loan to prospects. Smaller booklets were also provided for handout to prospects.

13. Countrywide Showing of a Film Relating the Complete Story of the New Car. March 26 on. This film ran for about 45 minutes and, in narrative form, gave the thinking of executives which led to the building of the new car, its development by the engineering staff, the construction of the car, and an exhibition of its performance and beauty. To effect the showing of this film the Corporation sent out 16 men with cars, films, and projection equipment to the various branch territories. Showings were made in stores, show rooms, theatres, and other public places. No charge was made to the public. The cost was shared jointly by the Corporation and its dealers.

Continuing Promotional Activities. The broad objective of the sales program subsequent to the announcement was to maintain an aggressive sales policy among the Corporation's dealers after the initial impetus had passed. Competing companies had well-organized and aggressive dealer organizations. Therefore, any substantial letdown by the Corporation's field organization and dealers might largely nullify the effectiveness of the promotional steps previously taken.

14. Continuation of Advertising on a Large Scale. April 1—May 31. Although the advertising was in greatest volume at the start it continued in substantial volume in all types of media during the spring buying season.
15. Sales Training Course. April 28. The Corporation's sales training director had prepared a series of topical discussions to serve as a training guide. These discussions were printed in a set of eight booklets, with the following titles: (*a*) The Customer's Buying Motives, (*b*) Opening the Sale, (*c*) Telling Your Sales Story, (*d*) Showing and Demonstrating, (*e*) Outselling Competition, (*f*) Overcoming Objections, (*g*) Closing the Sale, (*h*) Finding Prospects and Planning for Better Results. Each dealer was given the opportunity of enrolling his salesmen in this training course at a small cost per man. The course was sent to the men in eight installments. A meeting guide was sent to the dealer. After these meetings the salesmen were required to answer a set of questions on the unit of the course being studied and to submit the answers to the Sales Training Division, where they were graded. Salesmen were awarded certificates upon satisfactory completion of the course.
16. Training Course on Used Car Merchandising. The Corporation's used car department, after extensive study, developed a comprehensive program for used car merchandising which was presented to the dealers in a series of eighteen booklets, each devoted to some special aspect of the problem. Many specific examples were

given of procedures which certain dealers had followed with outstanding success.

17. Sales Contests. May 11—August 31. This period was divided into three contest periods. During each period in each of the sales regions the dealer with the highest percentage over quota was awarded a valuable merchandise prize. The contest was so arranged that dealers and retail salesmen each competed against others in their own class. The contest for salesmen furnished some opportunity for winning prizes to all salesmen. Interest in the contests was maintained during the period by announcing the records and awards in the Corporation's weekly newspaper.
18. Miscellaneous Promotional Activities. Throughout the Campaign. As a means of bringing the new car to the attention of the public the Corporation either conducted or engaged dealers to conduct a variety of publicity stunts. These stunts were arranged in cooperation with a circus, the Indianapolis Speedway, athletic events, etc.

Nature of the Scheduling Problem

The nature of the scheduling problem is well illustrated in the example just outlined. The strategy of the program was to build up interest in the new car on the part of company personnel, dealers, salesmen, the press, and the public over a period of six or seven weeks. Then, at the end of this period, from March 26 through April 1, the sales program reached a climax through the release of a barrage of publicity throughout the country. From that time forward, the objective was to maintain both public interest and activity on the part of dealers and salesmen at a high level.

The first question which management must answer is when to get the program underway. It may be only a question of when a new or improved product is ready for quantity production. The seasonal characteristics of demand, the strength of demand for older models, or the competitive situation may largely dictate the timing of a sales program. Usually a decision must be made many months in advance because the administration of a program is a complex activity. The second question is one of sequence, i.e., which means will be used in what order. It is a question of *when* each type of activity will contribute most to the success of the over-all program. A third question concerns the time needed to get certain activities underway and completed. This suggests a further complication in the work of scheduling. For instance, in the illustration given, salesmen were to be trained on the selling points of the new car and on selling techniques roughly between March 10 and March 26. This training, however, was the culmination of work over several months in getting the training materials together and in "training the trainers." The question, then, is when preparatory work of various types must start if the deadlines for the use of the materials prepared are to be met. Perhaps a few days or

weeks may suffice in some instances, but in other cases, e.g., magazine advertising, several months should be allowed. Therefore, it is evident that a scheduling problem exists in reference to the beginning of preparatory work as well as in reference to the culmination of these efforts in the program proper.

Both in matters of sequence of activities and those of timing the work of preparation, sales executives are guided by deductive reasoning and by experience. In many instances, there can be little doubt as to the appropriate order. For instance, meetings at the home office to inform and stimulate district and regional managers must precede their meetings with dealers for a like purpose. These meetings, in turn, must precede meetings of an informative and instructional character which each dealer holds with his salesmen. In regard to some other parts of a sales program, there is considerably more doubt about sequence. For instance, in the program outlined, there was some question whether the general sales training program and the used car merchandising program should have gotten underway earlier, perhaps in February or March. It will be recalled that the Corporation's salesmen had not sold cars in the low price range previously. Therefore, the general sales training program was very important. Deferment of the program until the late spring months was probably unwise, for salesmen may not have had the training when it was most needed. Faulty scheduling, it should be recognized, may be the result of unwise planning initially, a failure to estimate correctly the time needed to get certain things done, or of someone's failure to perform satisfactorily.

Need for a Master Schedule. The sheer number of activities involved in a sales program or campaign, variation in the time needed to prepare for each, and the need for adherence to a predetermined time schedule make desirable the preparation of a master schedule. It is something like a completed jigsaw puzzle in that all of the parts become more meaningful when they are placed in their proper positions. Then the program can be seen as a whole by sales executives. Each participant down the line can also see how his specialized activity fits into the whole effort. Not only should the schedule indicate what things are to be done in the program and when, but likewise when preparatory activities for them must start if deadlines are to be met, and who is responsible for each major activity. A schedule of this sort is needed for purposes of administrative co-ordination without which any group effort is likely to be haphazard.

DELEGATION OF RESPONSIBILITY

The principal act of delegation of responsibility is taken when a company's executives create its organizational structure and when

changes in the structure are subsequently made. The over-all sales task is then broken down on a functional basis. Tasks are grouped on the basis of their similarity in type, thereby creating an internal consistency in the work of each department. Thus, for a going concern, there is little doubt as to where the responsibility for certain parts of a sales program should be placed, both for planning and execution. There are always some border line cases, however, in reference to which decisions must be made on what department, all things considered, is in best position to do certain tasks. Further delegation of responsibility to subdepartments and to specific individuals down through the organizational levels will follow. Finally, some particular person must be held responsible for performance of each specific task.

Particularly in small concerns, the principal sales executive is often loathe to delegate sufficient responsibility to subordinates. He attempts to keep close control of all details in his own hands and, as a consequence, he is overworked and the sales program suffers. Under such conditions, promising individuals at lower levels in an organization are not given the opportunity to develop their abilities. Moreover, they may become dissatisfied and move on to other jobs. Then, if the enterprise grows and delegation of responsibility is forced upon the sales executive, capable men are not available in the organization. There is no acceptable substitute for trusting the proper individual at the appropriate level of authority. While work may not be done as acceptably initially by subordinates as by the sales executive, the organization as a whole is being strengthened by placing responsibility upon them even if it is somewhat beyond their demonstrated capabilities.

ADMINISTRATIVE CO-ORDINATION

The need for administrative co-ordination is an inevitable consequence of the delegation of responsibility and authority. In the conduct of a sales program many people work together. They are interdependent in the sense that what each person does affects the work of others. Despite attempts to clarify the functions and activities to be performed by different departments and individuals, there is bound to be some overlap and therefore the need of co-ordinative activities. The essential problem is to keep the whole program in line. This involves a periodic check-up to ascertain whether sufficient progress is being made, whether people are meeting their individual deadlines, and, if not, what remedial action can be taken. Co-ordination of the work involved in sales programs cannot be left to chance. A failure on the part of sales executives to keep everlastingly at it will result in unforeseen and ofttimes disturbing developments.

Essentials of the Co-ordinative Process

Adequate Information. First, it should be recognized that co-ordination cannot be accomplished without adequate knowledge of what is going on throughout an organization. While no disagreement would be voiced with this seemingly obvious conclusion, still, in many instances, sales executives are not sufficiently well informed to perform the task of co-ordination well. The nature of the co-ordinative function demands that the sales executive should know enough about the whole sales effort so that he can talk intelligently with those who are responsible for any particular type of activity. While the sales executive should not permit himself to be overwhelmed with the details of every part of the program, he should know enough about the various activities involved to counsel wisely in view of his wider perspective and his sense of strategy and timing in reference to the over-all sales effort.

Various devices are used to secure the necessary measure of communication between those people who are responsible for different parts of the sales program. The master schedule, previously mentioned, is a useful device, for it focuses attention on the time element involved and likewise furnishes information on who is responsible for various activities. Clearances by higher executives for the initiation of certain activities and for expenditures are informative. Initialing of memoranda indicating agreement with certain ideas or procedures is a helpful device if it is not allowed to slow down the tempo of operations too greatly. Occasional staff meetings, which are used both for threshing out important matters in an attempt to arrive at sound conclusions and for exchanging information, are held by most concerns. Progress reports are often required so that the sales executives can be periodically informed of the current status of various activities. Reports from the field, discussed in a previous chapter, after they are summarized, also furnish executives with a considerable amount of information.

There is a reporting technique which is called "reporting by exception." This method is particularly to the point in reference to sales programs because it emphasizes the areas in which performance has deviated from plans and therefore focuses attention on those parts of the sales program where co-ordination is most needed. Furthermore, this method has the virtue of bringing to the notice of top sales executives *only* those items which merit their attention. If the sales program has been thought out well in advance and if variations from it are adequately reported, sales executives are in a good position to take any necessary remedial steps and to provide the necessary amount of co-ordination.

Still it is doubtful whether sales executives can get all the informa-

tion which they need from reports and from home-office contacts. In order to sense the situation in the field and, in particular, to determine whether the various field activities provided for in the sales program are working out effectively, some direct field contacts are needed. Therefore, most sales executives spend some time in field work. According to a recent analysis of the time utilized for various types of activities by sales executives 28.4 per cent of their time was used on the average in directing the sales organization and an additional 13.8 per cent in making calls with members of the field organization.[1] While this time spent in the field has many objectives, the additional information secured which will aid in the co-ordinative process is an important one.

Executive Direction and Leadership. There is no better test of leadership than that afforded by the co-ordinative process. Information secured through the means of communication just discussed, if well digested and judiciously appraised, will indicate when and where there is need for executive action. Thus the vigilant and alert sales executive will know when to step into a situation and attempt to do something constructive. He must know how to do so without creating misunderstanding and ill will. Effective leadership will proceed by the discussion and suggestion approach, at least initially, in an attempt to aid subordinates in working out their own problems. If the sales executive has chosen his subordinates wisely and has a genuine respect for their ideas, he will not be highly dogmatic in his approach and demand action of a particular type. Nevertheless, it should be recognized that at times forceful action is needed. There should be no hesitancy in taking such action when subordinates are either demonstrably unequal to their tasks or unwilling to co-operate fully. However, guidance, which is the essence of effective leadership, is always preferable to dominance as an initial point of departure.

CO-OPERATION WITH DISTRIBUTIVE OUTLETS

The material presented on the sales campaign of an automobile manufacturer shows the important part played by dealers in the introduction and sale of a new model and furnishes some indication of the efforts which must be exerted by the manufacturer to secure the dealer's co-operation. Getting such co-operation is one of the most difficult problems of management. Even when a concern works through its own branches and retail outlets the problem is present but in a less aggravated form because guidance can be given to company employees and they can be expected to follow stated policies. In situations such as those of the automobile companies, dealers are usually

[1] Metropolitan Life Insurance Company, Policyholders Service Bureau, *Functions of the Sales Executive* (New York, 1946).

exclusive in that they handle only one company's products, at least in a given price class. Therefore, co-operation is more easily secured because there is no direct competition between products within the retail outlet. In many instances, however, notably in convenience goods but also in many household durables, wholesalers and retailers handle a number of directly competing models or brands. When this condition prevails, a number of manufacturers are all attempting to secure a greater measure of co-operation from dealers and their salesmen. The difficulty of doing so is thus enhanced. Moreover, too great success in securing co-operation on the part of one manufacturer may lead to an accusation by regulatory bodies that the methods used tend to stifle competition at the retail level. Therefore, the manufacturer has a problem of determining how far he can go in securing co-operation and what methods will be considered lawful.

When manufacturers are asked how successful they have been in getting the co-operation of distributive outlets in selling their products, the answer is likely to be "not good." It is generally believed that much of the promotional material furnished is wasted, that suggestions for improvement of operations usually go unheeded, and, as a result, that wholesalers and retailers are much less efficient than they could be through better co-operation. Even when, in the planning of a sales program or campaign, the part to be played by distributive outlets has been imaginatively conceived, and the means for securing dealer co-operation have been well worked out, still there may have been little success in attaining the desired objectives. People at the home office may have been very enthusiastic about the plans but, for some reason or other, enthusiasm has been lost as the plans went down through the organizational structure for execution, and the amount actually accomplished at the distributor level often has not been great.

On the contrary, when co-operation has been good, excellent results have often been achieved by distributive outlets. The reasons are in part self-evident. Some manufacturers have specialized personnel who are constantly on the alert for new ways of improving wholesale and retail operations, in general as well as in connection with the sale of their particular products. In contrast, many wholesale and retail operations are small and they cannot afford to hire specialists in general management, in advertising and sales promotion, and in the improvement of selling effectiveness. Thus the suggestions of the manufacturer should be welcomed, but there is a great deal of inertia to overcome and only partial success is usually achieved. Still the manufacturer must persevere in this type of effort. Competition demands it, and the results attained, if the work is well done, are likely to justify the expenditures incurred.

First, something will be said about the forms of co-operation with distributive outlets. When co-operation is attempted at the retail level,

these forms are usually called "dealer helps" or "dealer aids." After a brief classification of these forms, attention will be given to the administrative problem of securing co-operation and, briefly, to the legality of methods in this field of activity.

Forms of Co-operation with Distributive Outlets

There are a multiplicity of things which the manufacturer may do to aid distributors in the selling of their products.[2] They can be roughly classified under the headings of: (1) management service (nonselling), (2) advertising and other sales promotion, and (3) management of selling personnel.

Management Service (Nonselling). Service of this character may include information and actual training on any aspect of management at the wholesale or retail level. Some of those on which aid is most frequently given are the following: Accounts and records, standard costs and margins, sales and expense budgeting; Methods of inventory control, both for products and parts; Store layout and equipment; Purchasing, additions to line, etc.; Pricing of products, trade-ins, and services. This type of service, when used extensively, is likely to be associated with exclusive agency relationships or at least with the policy of selective distribution.

Advertising and Other Sales Promotion. Dealer helps in the form of advertising and sales promotion are used extensively by manufacturers of consumers' goods. The variety of promotional devices is great, and they have received wide publicity. Some of the aids most commonly used are the following: Advertising—newspaper, direct mail to prospect lists furnished by dealers, billboard, handouts—often jointly financed by the manufacturer and the dealer; Missionary selling activities; Store decoration and minor equipment, such as display materials and cabinets, banners, placards, window trim, etc.; Distribution of samples and coupons which entitle the holder to free goods or goods at reduced prices; Contests for retailers' salesmen; Product demonstrations by the manufacturer's representatives in retail outlets; Development of traffic for stores through the offer of prizes, free merchandise, etc.

Management of Selling Personnel. Particularly for consumer durables, manufacturers attempt to aid distributors in their sales personnel-management problems. This is done through conferences in which salesmen are included, the development of procedures which the dealer may use in recruitment and selection, and training for salesmen, both in reference to the product and selling methods. The dealer

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[2] The term "distributor" unmodified will be used in the pages which follow to include sales outlets at both the wholesale and retail level.

may also be aided on questions of compensation, supervision and control, and stimulation of his sales force.

Means for Securing Co-operation from Distributive Outlets

The over-all problem which faces the manufacturer is how to get certain things done in the field which he feels must be done if his products are to be sold in sufficient volume to assure profitable operation. The problem differs in some ways, depending upon whether the products to be sold are producers' goods, consumers' durables, or convenience goods; likewise upon whether co-operation is needed from wholesalers, retailers, or a company's own field organization. While the type of activity on which the co-operation of distributors is needed determines, in part, the approach used to secure their co-operation, in general, most types can be used for goods of dissimilar nature and can be directed at either wholesalers or retailers. Therefore, no attempt will be made to differentiate sharply between those which are used for industrial goods and those used for consumers' goods or between the means for securing co-operation in each instance. Instead, the means used will be considered in turn with some indication as to the conditions under which each appears most appropriate.

Value of the Sales Franchise.[3] Basically, co-operation between two parties in any economic activity is likely to be a matter of *quid pro quo*, i.e., something for something. If the manufacturer wishes to get full co-operation from distributors, he must offer them some advantages. They may lie in the excellence of the ideas and plans suggested for general management, promotion, or management of the distributor's sales force. In reference to producers' goods and consumers' durables, however, they are usually more definite. The principal advantages which may be offered are some measure of exclusiveness in territorial representation, perhaps for a line of goods or for an individual product; favorable prices and terms of sale; financing; price protection on inventories; and substantial aid in sales promotion. For instance, in the case of automobile dealers or manufacturers' agents who handle machinery and equipment, the exclusive sales franchise in a particular territory is often a valuable consideration. In order to secure it initially and retain it, the distributor will do many things which the manufacturer suggests, such as to refrain from handling competing products, to maintain adequate inventories, to furnish service when needed, to maintain suggested prices, and aggressively to promote sales. He may have no alternative if he wishes to retain the sales franchise. Nevertheless, co-operation is a matter of mutual ad-

[3] See Chapter XII, pp. 379–80.

vantage rather than only a means by which the manufacturer assures a certain type of operation at the retail level.

A Field Force to Supervise Distributors' Activities. Under a system of exclusive agencies, particularly when the line of the manufacturer corresponds closely to the line carried by the distributor, a field force to supervise distributors, at the retail level especially, is often used. For instance, in the automobile industry, field men from various departments—among them business management, sales, and service—may contact dealers regularly. The manufacturer does not assume that dealers will be able to do or will do certain things which seem necessary for making sales and for keeping their businesses in a healthy condition. Thus periodic calls for purposes of direct communication between the company and the dealer, for making suggestions on operations, for training purposes, and likewise for checking-up on procedures and operations are made. Personal service of this character by field representatives helps dealers to solve problems which they are incapable of handling themselves. Reports on the conditions prevailing in each dealership are then prepared and sent to the home office for review. Perhaps the initial action on the basis of these reports will be in the form of further suggestions that certain things be done, but repeated failure to comply may lead to a withdrawal of the sales franchise.

Reports by Distributors to Manufacturers. In order to secure close liaison with wholesale distributors and dealers, manufacturers may request that they report on various activities periodically. These reports may include information on sales, inventories, variable and fixed expense items, and both gross and net profits. At times manufacturers request a complete and accurate operating statement, together with supporting data covering the preceding month's operations. Reports may also be requested covering estimates of future requirements of both products and parts. Through these reports the manufacturer has at least resaonably complete information about operations and the financial position of the distributors. While full compliance is not always secured, periodic visits of company representatives may both stimulate and aid the distributor and dealer in this type of activity.

Field Work of Company Executives. It was noted previously that many sales executives spend considerable time in the field in making calls with field managers and salesmen. Usually these calls are on important wholesale distributors or large dealers, at times when difficulty is being encountered in securing their full cooperation. Trouble-shooting of this sort is often very effective. The distributor is subtly complimented by receiving a call from one of the company's top executives, his suggestions thus carry considerable weight, and, as a result, better co-operation may be achieved. In addition, the executive becomes more aware of conditions in the field and the morale of

field-selling forces may be improved. While field activity by executives must of necessity be limited, in most instances it is limited too greatly. Many sales managers freely admit that they do not spend sufficient time in the field. Problems at the home office continually press in upon them, many of these problems are urgent, and thus field work is often neglected.

Use of "Roving Reporters." At times companies make considerable effort to determine the extent to which co-operation is being secured from dealers. While this checking-up activity may be done by salesmen, a good case can be made for having it done by a special group. If it is wholly or in part the salesman's responsibility to secure dealers' co-operation, then both his work and that of the dealer are being appraised, and preferably by a third party. In one particular instance, that of Hotpoint, Inc., the following plan is used:

> Then, just to check up on how the program is working, we have a group of "Roving Reporters." These people travel incognito from city to city, dropping into retail establishments, posing as typical appliance prospects. After listening to the salesman's presentation and getting his card, the Roving Reporter reveals his identity and either hands the salesman a Bonus Certificate entitling him to a prize award for a fine presentation, or counsels with him in a friendly, helpful way on the need for his brushing up on his selling technique.[4]

In this instance, it was the responsibility of the wholesale distributor and his salesmen to train the dealers and their salesmen. They, in turn, were trained by factory crews which traveled from city to city. Although it was not mentioned, the distributors were probably informed whether retail sales people in their territories were presenting the company's products effectively.

Training of Company Salesmen. Much will be said in subsequent chapters about the training of salesmen. One of the principal objectives of this training is, of course, to secure friendly, co-operative, and thus productive relations with distributors. If the sales training "takes" and the salesman becomes effective in his various tasks, distributor co-operation in all parts of the sales program will result. While there are undoubtedly some cases where non-co-operation is the result of conditions beyond salesmen's control, still it can often be traced directly to poor performance by them.

Training of Distributors' Salesmen.[5] For industrial equipment and supplies and for consumers' durables, manufacturers usually take at least part of the responsibility for training distributors' salesmen.

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[4] Edward R. Taylor, "Reinforcing the Presentation at Point of Sales," *Effective Merchandising, Promoting Dealer and Distributor Cooperation* (Marketing Series, No. 80) (New York: American Management Association, 1950), p. 14.

[5] For an excellent discussion of this subject, see *Training Dealers* (Studies in Business Policy, No. 48) (New York: National Industrial Conference Board, Inc., 1950).

Manufacturers have found that wholesale distributors usually are not effective in training dealers and their salesmen either in the fundamentals of selling or in relation to the product. Thus some manufacturers go direct to retailers with training work even though the company's products are sold through independent wholesale distributors. One electric refrigerator manufacturer, for instance, has 65 trainers stationed at the distributor level. The distributive agencies, some of which are independent, others company-owned, organize the training work among dealers, but the actual training is done by the specialized trainers. The whole training program is laid out in advance by the home office, and an extensive body of training materials is provided. Training meetings are held frequently for dealers and their salesmen. There are two types of training clinics, one on selling techniques, the other on the product. While these clinics are held primarily for new salesmen, older salesmen frequently attend for retraining purposes. The co-operation of distributors is not difficult to secure under these circumstances, but the company's executives are doubtful whether good results would be secured if greater responsibility for training was placed upon them.

The following quotation from an abrasives manufacturer is informative on this question of training:

> I want to make four points, suggest four ways by which you can insure greater co-operation from your industrial distributor. If you have an industrial distributor, consider him part of your own sales force . . . On this basis, you will see that you should do some of the same things for him that you do for your own sales organization.
>
> Point number one: you should train or help to train your distributor's salesmen, especially if your product is a technical product. Point number two: you should assist your distributor with his mail promotion of your line, just as you use direct mail for your own promotion. Point number three: there is need for a good distributor's sales manual to assist the distributor salesman in doing his job. You should prepare this manual for your distributor's men. Point number four: you should have a long-range program of educational and inspirational sales meetings for your distributor.[6]

Missionary Sales Work. It would appear that missionary sales work should be productive of co-operation between manufacturers and wholesalers, but often it has had quite the opposite effect. In fact, missionary salesmen perform certain functions which otherwise might be expected of the wholesaler. Among these are the introduction of new products, the installation of window trim and mass displays, arrangements for co-operative advertising, the maintenance of cordial relationships with dealers, and the acceptance of orders which usually

[6] Wallace T. Montague, "The Manufacture-Dealer Relationship," *Effective Merchandising, Promoting Dealer and Distributor Cooperation* (Marketing Series, No. 80) (New York: American Management Association, 1950), p. 19.

are filled through the wholesaler. In the ethical drug trade, missionary salesmen—there called detail men—work with hospitals and doctors in an attempt to get them to use new medicinals and apparatus. In the industrial equipment field, missionary salesmen may work directly with other manufacturers who are potential buyers, although their companies sell through manufacturers' agents. Instead of attempting to get wholesale distributors and dealers to perform certain functions, the manufacturer performs them himself through a missionary sales force.

Missionary selling thus in large measure substitutes direct action on the part of the manufacturer for co-operation, which would otherwise be needed, on the part of wholesalers. Still, unless handled judiciously, such selling can be productive of a lack of co-operation in other selling activities, even of unwillingness to handle a manufacturer's products. Missionary salesmen have often been accused, and with some justification, of overstocking dealers, selling to poor credit risks and then expecting wholesalers to fill the orders, of playing one wholesaler against another by shifting orders between them, of offering special terms or rebates to certain dealers in the name of the wholesaler, and of other similar activities. Wholesalers may believe that missionary sales work is the first step toward direct sale and that it is just another way of decreasing the wholesaler's independence. Also, when missionary salesmen accompany wholesalers' salesmen on their calls, a conflict of personalities may arise which creates ill will.

Questionable activities on the part of missionary salesmen are not as prevalent as formerly. Nor are they likely if missionary sales work is planned and administered wisely. Proper appreciation by manufacturers of the sources of difficulty and dissatisfaction on the part of wholesalers is needed, nevertheless, to put missionary selling on a fundamentally sound basis. Careful training and supervision of missionary salesmen is essential if the task is to be well done and if friendly relations with wholesalers and dealers are to be preserved. As a generalization, co-operation can be expected to the extent that the manufacturer refrains from those activities to which the wholesaler can have a legitimate objection.

Prior Survey and Testing of Promotional Aids. Surveys have frequently indicated that point-of-sale promotional material is not fully used by retailers nor used for the intended purpose. As a result, some companies are proceeding on a much less haphazard basis than formerly. An illustration is furnished by the experience of General Foods:

> We made several field surveys this past year on the use to which our point-of-sales material was being put, and we reached some disappointing conclusions. We learned, for example, that on several campaigns last year, only one-half of the material shipped out to the field was being used

effectively . . . It had not been checked with the field to predetermine its acceptance. We now have a continuous program in General Foods to eliminate a great deal of the guesswork as to what constitutes the most vital pieces and where they should be concentrated . . . This program called for periodic surveys of the grocery stores regularly contacted by our salesmen . . . This system afforded us an accurate picture of the types and amount of material which could best be used in these stores. . . .

Even when we know how much to send each store, we still face the prospect of the disagreeing grocer. One thing which we must continually bear in mind is that the grocer is a practical businessman. He knows exactly how much his floor space is worth; if we want to install a display, we have to prove to him that the space will bring greater returns if occupied by the right product and the right display than if it is used for just a mass display of a stack of merchandise . . . We must think in terms of the store operator and assume that we have a justifiable reason for the acceptance of any piece of point-of-purchase material we plan to utilize. *We are convinced that it is a waste of time, effort, and money to send point-of-purchase material to the field if we cannot demonstrate how it will work for the benefit of the store operator. . . .* [*Italics added.*]

I believe that this entire subject can be summed by stating that most operators will accept any display material if they can be convinced that it will help them sell more merchandise. Furthermore, they will let it stay up if it will do the selling job claimed for it. The real test of a display's effectiveness is not whether we like it, but whether the store operator can use it . . . likes it . . . and knows that the consumers will be influenced by its salient features.[7]

The procedure suggested in the above quotation takes nothing for granted. The implication is that the way to get co-operation from retailers on point-of-sale promotional materials is to predetermine by surveys what can be used and how much can be used effectively; to design materials which meet the retailers' needs; and then to demonstrate to him how they can be put to use with good results within his store. A procedure such as this should result in a greater measure of excellence in the materials prepared. This, in itself, should induce co-operation in their use.

Other Means of Assuring Use. In addition to the steps just mentioned, there are other ways of assuring use of point-of-sale promotional materials, among them installation by salesmen or specialized agencies, joint defrayal of cost, and the "success story." The old practice of sending materials to the retailer with the suggestion that they be used in a certain way and, perhaps, at a certain time, thereby tying in with advertising in publications, is giving way to other less haphazard methods. One way is to instruct salesmen to install displays

[7] W. P. Lillard, "Point-of-Purchase Promotion," *Proceedings of the Sixth Annual Advertising and Sales Promotion Executive Conference* (Ohio State University Publications, College of Commerce Conference Series—Number C-65, 1950), pp. 55–57.

and to train them previously in reference to selecting locations, securing dealers' co-operation, and in display techniques. Some large companies have secured better results by retaining the services of organizations which specialize in doing this type of work. While the salesmen pave the way by getting the consent of retailers, still they are relieved of the actual installation work.

Joint defrayal of cost is a fertile means of securing dealers' co-operation. Of course, he must first be convinced that the materials will aid in the sale of merchandise. But once he has committed himself by selecting and ordering promotional materials, as in the automobile instance previously outlined, there is much greater likelihood that he will use them when they arrive. The only way he can justify his previous decision is to carry through. Because of this self-imposed compulsion, manufacturers believe that some capital commitment by the retailer in promotional aids, even though it is a small part of total cost, is helpful in securing co-operation. In one particular instance, a company attempts to recover 50 per cent of the cost of promotional aids from its dealers. Over the years it has been able to recover about one-third. Still the company's executives feel that the effect of joint defrayal of costs is a salutary one.

Finally, as a means of securing co-operation of dealers, there is no good substitute for the "success story." Again, it is a question of a convincing demonstration of what may happen if the dealer follows a certain suggested procedure. If the procedure has been followed elsewhere, if it has been outstandingly successful, and if the manufacturer can offer quantitative proof of its effect on sales, an affirmative decision may be made. For instance, if the manufacturer can convince the dealer that a certain type of display, placed in a certain position within the store, followed up by store demonstrations and later, if necessary, by household calls has resulted in a certain volume of sales, the co-operation of the dealer may be secured.

Restrictions on Attempts to Secure Distributors' Co-operation

While the manufacturer has considerable leeway in the selection of means for securing the co-operation of distributive outlets, he must, nevertheless, work within a pattern of regulation and control embodied in legislation. This legislation has been interpreted by regulatory agencies and the courts in such a way as to circumscribe manufacturers' relations with distributors in many ways. In general, the manufacturer must refrain from actions which, in the words of the Clayton Act (Section 3), "may be to substantially lessen competition or tend to create a monopoly in any line of commerce." Furthermore, legislation has forbidden discrimination in pricing and in allowances of various sorts which might lessen competition between buyers at

either the wholesale or retail level. Both in reference to advantages which the manufacturer might wish to accord to certain distributors of his products and the advantages which he might wish to secure from them, there is a possibility of acting illegally and therefore the possibility of attack by regulatory bodies, either directly or through the courts.

In recent years, manufacturers frequently have been challenged in relation to certain provisions of exclusive agency contracts, quantity and cash discounts, promotional allowances, and other promotional means such as contests for distributors' salesmen. Questions relating to the legality of discounts have been considered previously.[8] Our discussion here will be confined to exclusive-agency contract provisions and promotional facilities and allowances.

Legal Restrictions on Exclusive Agency Contracts. Recent action by the Department of Justice and the Federal Trade Commission has centered about two provisions in exclusive agency contracts.[9] The questions involved are, (1) whether a manufacturer legally can be in agreement with wholesalers or retailers that only his products will be handled by them, thereby excluding from these outlets products manufactured or sold by competitors and, (2) whether the manufacturer legally can limit the territory in which a wholesaler or retailer sells his (the manufacturer's) products. The first of these questions is the familiar one of exclusive dealing. There is no question involved as to whether the manufacturer voluntarily can limit himself to selling through only one outlet in a given market. This is an advantage which he can offer to dealers. The question, in contrast, is whether he legally can be in agreement with distributors whereby *they* contract to sell no other manufacturers' products of like type.

An exclusive arrangement of this character and its possible effect in restraining competition was envisaged in the Clayton Act. If a certain manufacturer was dominant in a particular industry and he secured exclusive representation on the part of many dealers a substantial lessening of competition was foreseen. This occurred in some industries and the exclusive agreement was held illegal under Section 3 of the Act. The most noteworthy case was *Standard Fashion Co.* v. *Magrane-Houston Co.*[10] The Court held that "The restriction of each merchant to one pattern manufacturer must in hundreds, perhaps in thousands, of small communities amount to giving such single pattern manufacturer a monopoly of the business in each community."[11] Yet, in another case, that of *Pick Manufacturing Company* v. *General*

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[8] See Chapter XI, pp. 334–40.

[9] For examples of exclusive agency contracts see John Cameron Aspley (ed.), *Sales Manager's Handbook* (5th ed.; Chicago: Dartnell Corporation, 1948), pp. 873–92.

[10] 258 U.S. 346 (1922).

[11] *Ibid.*

Motors Corporation a Circuit Court of Appeals held that contracts which required dealers to sell only General Motors repair parts were legal, for cars in the minds of their owners "are identified and associated with the manufacturer. If defective or inefficient repairs or replacements should be made, and the cars, as a result, should operate unsatisfactorily, the owners' recollections will naturally and inevitably revert to the specific name and manufacturer thereof."[12] The decision was affirmed by the Supreme Court in 1936.[13]

From these cases and others, it was apparent that a contract provision whereby the retailer agreed to sell only one manufacturer's products was not considered illegal per se, but that it depended upon the facts peculiar to a given situation—in particular, whether restraint of trade was actual or probable, the proportion of the total sales volume controlled by the manufacturer, the extent to which he dominated the industry of which he was a part, and the general practice of the trade. These factors were all considered pertinent to an investigation and ultimate decision as to legality.

Recently, however, the legal status of exclusive-dealing contracts has been altered. Early in 1947, action was taken by the Department of Justice against the Standard Oil Company of California which charged violation both of Section 1 of the Sherman Act and Section 3 of the Clayton Act. The basis of the complaint was the Company's practice of entering into agreements with its 6,000 or more dealers for exclusive handling of its petroleum products and some automotive accessories, although this was a common practice in the industry. It was not contended that Standard had a monopoly. It enjoyed only 23 per cent of the total Pacific area gasoline business and sold through only 16 per cent of the independent dealers. When the suit was brought, Standard offered to demonstrate that the contracts were reasonable, that they did not substantially lessen competition, and that its share of the total business had not increased during the time the contracts were in force.[14] The court ruled, however, that testimony to this effect was immaterial and therefore should not be permitted to affect the court's decision.

In June, 1948, the District Court ruled that the contracts violated both the Sherman Act and the Clayton Act on the basis that the contracts covered a substantial number of outlets and a substantial volume of products. Under these conditions, the court reasoned, a substantial lessening of competition *is a foregone conclusion* because the existence of contracts for a large volume of business excludes competing

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[12] 80 F. 2d 641 (C.C.A. 7th, 1935).

[13] *Pick Manufacturing Company* v. *General Motors Corporation*, 299 U.S. 3 (1936).

[14] *United States* v. *Standard Oil Company of California*, 78 F. Supp. 850 (S.D. Calif., 1948).

suppliers from this business. In June of 1949 the Supreme Court upheld the lower court's decision on a five to four vote and has since indicated unwillingness to review the case.[15] The effect of the Standard decision has been stated by one legal authority as follows:

> In short, the Clayton Act has been judicially turned around. Selling methods proscribed as unlawful where they may "*substantially* lessen competition" are now automatically invalid if they cover any *substantial* amount of business.[16]

Without argument, however, those manufacturers whose jobbers and dealers have expressly contracted to refrain from handling competing lines must be expected to terminate these arrangements. In this connection, it is well to remember that the broad language of Section 3 prohibits not only an *agreement* not to use or deal in competing goods but also any sale on a like *condition* or *understanding*.

From this point of view the *Standard* opinion may have a pervasive practical effect. Wherever there are territorial franchises to distributors, delicate legal problems will arise. The right to fire a dealer, who does not do a good job, may continue; but often poor dealer performance may coincide with the handling of competing lines. Indeed, taking on a competing line may turn out to be good legal insurance against cancellation of your franchise.

Understanding, of course, can be demonstrated from conduct. If all or even most of a manufacturer's dealers do not handle competing products, an inference of understanding may become feasible. Yet it is difficult to believe that a seller must insist that those who distribute his goods dilute their sales effort. Nice questions of fact and motive can be expected to arise.[17]

The above quotation strongly emphasizes the present uncertainty in regard to the legality of various parts of the exclusive agency contract. Contract clauses which have heretofore been considered legal and proper as well as desirable to the manufacturer, the distributor, and the public are now in question. For instance, exclusive agency contracts have usually contained a clause which restricted the dealer to sales within a certain geographical area. This has been a time-honored marketing practice. Through this practice which eliminates, or at least limits, competition between two or more dealers who handle his products on an exclusive basis, the manufacturer has been able to secure much more co-operation than he otherwise would have secured in promotional activities and maintenance of suggested prices.

While, to the present, limitation of the dealer's sales territory has not been declared illegal, still manufacturers are apprehensive that

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[15] *Standard Oil Company of California* v. *United States*, 337 U.S. 293 (1949).

[16] H. Thomas Austern, "The Supreme Court and Section 3 of the Clayton Act—the Standard Oil of California Decision," *A New Look at Antitrust Enforcement Trends* (New York: Commerce Clearing House, Inc., 1950), p. 46.

[17] *Ibid.*, p. 49.

they will be subject to attack on this basis. In one particular instance, a manufacturer consented to the entry of a judgment which constrained him from incorporating in any contract a provision which excluded dealers from any designated territory. Perhaps this indicates that in time territorial restriction clauses will be classified under the antitrust laws with the exclusive-dealing clause now held illegal. At least, there is sufficient uncertainty about their legality to induce some manufacturers to eliminate them from their contracts with dealers—for instance, General Motors Corporation.[18] Apparently, it is a precautionary measure—one which may have been precipitated by the Standard Oil decision.

Attempts by manufacturers to secure the co-operation of distributors is, in part, a reflection of the fact that they take considerable responsibility for their products subsequent to initial sale. Particularly for major items of household equipment and producers' goods of various types, a close relationship between manufacturers and distributors is required if the needs of the buyer are to be met effectively. Only through selective distribution can the manufacturer get distributors to do those things which are necessary, if his products are to be well sold initially and adequately serviced thereafter. Effective selling, in the sense of correct adaptation of the products to the buyer's needs, sufficiently large inventories, and good service facilities, is just as important to the buyer as to the manufacturer. Yet it is doubtful whether these services will be provided adequately under a system whereby distributors cannot be limited contractually to handle only one manufacturer's products. But agreements to this effect were held illegal in the Standard Oil Company of California case previously cited. Furthermore, both the Department of Justice and the Federal Trade Commission took action recently in a number of instances against manufacturers of farm equipment, motorcycles, and sanitary equipment, alleging violation of the Clayton Act or the Federal Trade Commission Act through exclusive-agency relationships with distributors.

These actions suggest a failure by regulatory agencies to distinguish clearly between the needs of the market in high value equipment items versus convenience and shopping goods. Under modern conditions no manufacturer of a branded product completely divorces himself from it at the time of sale. Still, for equipment items of a technical character, the manufacturer must take more responsibility subsequent to sale than for other products because the consumer usually needs his aid as well as that of the dealer to get the utility from them. In view of the nature of these products—their requirements in sale and service—an exclusive agency relationship between the manu-

[18] "G. M. Precaution," *Business Week*, October 1, 1949, p. 52.

facturer and his distributors is essentially reasonable and in the interest of all parties concerned, including the consumer. If relationships of this character are not permitted as in the past, the marketing system will be weakened and consumers will be less well served than formerly.

Legal Restrictions on Promotional Services and Allowances. In order to secure the co-operation of dealers, manufacturers engage in multifarious promotional activities at the retail level. Some of these activities are of the "joint venture" character, for instance, co-operative advertising. In other instances, displays, samples, free deals, the services of demonstrators, and the like are made available to dealers, perhaps at no cost to them. Prior to the passage of the Robinson-Patman Act in 1936, there was little if any restriction imposed by legislation on this type of co-operation with dealers. Dealer helps were furnished in a somewhat haphazard manner and some discrimination was undoubtedly present. Whether there was discrimination "by intent" in most cases is questionable. Nevertheless, when certain particularly aggressive dealers demanded greater aid than was previously given, it was often forthcoming. In order to have refrained from discrimination, the manufacturer should likewise have given this additional aid to all competing dealers.

Much of this aid to dealers takes the form of promotional allowances. These allowances constitute a reduction in price to the buyer as compensation for particular forms of sales promotion. The price reduction may be related to any type of promotional effort, but usually relates to newspaper advertising. In each instance, however, allowances are not intended to constitute a reduction in the cost of the merchandise purchased but payments for services rendered. Therefore, logically, there is no necessary connection between the volume of goods purchased and the allowances given. However, as they are usually given in the form of a percentage reduction on the amount of the invoice, such a connection seems apparent.

The Robinson-Patman Act, Sections 2(d) and 2(e) were specifically directed toward the elimination of discrimination in this area of promotion.[19] The language used in these two subsections is confusing

[19] Sec. 2(d) of the Robinson-Patman Act provides:

"(d) That it shall be unlawful for any person engaged in commerce to pay or contract for the payment of anything of value to or for the benefit of a customer of such person in the course of such commerce as compensation or in consideration for any services or facilities furnished by or through such customer in connection with the processing, handling, sale, or offering for sale of any products or commodities manufactured, sold, or offered for sale by such person, unless such payment or consideration is available on proportionally equal terms to all other customers competing in the distribution of such products or commodities."

Sec. 2(e) of the Robinson-Patman Act provides:

"(e) That it shall be unlawful for any person to discriminate in favor of one purchaser against another purchaser or purchasers of a commodity bought for

and ambiguous to an unfortunate degree, and thus manufacturers have not known, nor been able to determine, just what promotional arrangements with dealers would be considered in conformance with the Act. The Act says that the payments for services must be given "on proportionately equal terms." The difficulty present is one of interpreting this phrase in a reasonable manner. To this interpretation, legal experts have devoted their energies ever since the Act was passed.[20]

Legal opinion now indicates that Section 2(d) and Section 2(e) of the Robinson-Patman Act should be interpreted as follows:

Section 2(d) prohibits the manufacturer from making any payment to a dealer in his product, for a cooperative-merchandising service, UNLESS (a) it is a true, reasonable and earned payment for the service; (b) it is made for a service which competing dealers in this product can similarly and proportionally furnish to him; (c) it is actually and proportionally made available to such dealers, for a similar service; and (d) it is proportionalized between such dealers, who furnish a similar service, in either of the two ways stated. Conversely, Section 2(e) prohibits the manufacturer from himself furnishing a cooperative-merchandising service to a dealer in his product, UNLESS (a) it is a service which he can similarly and proportionally furnish to competing dealers therein; (b) it is actually and proportionally made available to such dealers; and (c) it is proportionalized between such dealers, who receive a similar service, in either of the two ways stated.[21]

The "two ways stated" referred to the interpretation of the term "proportionally equal." They are:

"first, by furnishing a similar service to each dealer; or secondly, through uniformly measuring this service by a reasonable standard of its relative marketing value to him, in each instance. And likewise one such standard may be the volume of sales in his product to these dealers, respectively; whereby this service is then uniformly measured by a percentage or ratio of that volume."[22]

The opinion just quoted furnishes a general guidepost as to what relationships may or may not be legal under these two sections of the Act. However, it is apparent that legal counsel may be needed in

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resale, with or without processing, by contracting to furnish or furnishing, or by contributing to the furnishing of, any services or facilities connected with the processing, handling, sale, or offering for sale of such commodity so purchased upon terms not accorded to all purchasers on proportionally equal terms."

[20] George J. Feldman, and Bertan A. Zorn, *Robinson-Patman Act: Advertising and Promotional Allowances* (Washington, D.C.: Bureau of National Affairs, Inc., 1948). Also, Charles Wesley Dunn, Section 2(d) and (e), *Robinson-Patman Act Symposium* (New York: Commerce Clearing House, Inc., 1946), p. 72.

[21] *Ibid.*, pp. 71–72.

[22] *Ibid.*

reference to each new promotional effort in which distributors co-operate.

Restrictions Imposed by Distributors' Attitudes. In addition to legal limitations on co-operation with distributors, there are those of strategy and policy. It is a question of how far it is wise to go in attempting to get them to do certain things or to do them in particular ways. Admitting that the manufacturer's experts in selling methods, service activities, promotion, and general management may have many excellent ideas which are worthy of acceptance and implementation by wholesale and retail distributors, still they may not wish to implement them and dislike being "pressured" into doing so. Retail dealers, in particular, often chafe at their lack of independence.[23] Still they hesitate to withhold co-operation when the manufacturer makes suggestions in regard to methods of operation because they are fearful of losing their sales franchises. Nor is this apprehension entirely unfounded, for most contracts contain cancellation clauses which either party can invoke. While it is true that manufacturers do not wish to lose good dealers nor dealers a good line to sell, still the manufacturer is sometimes in the stronger position of the two and thus, if the sales franchise is of real value, can secure much of the co-operation on the part of distributors which he desires. In contrast, if the sales franchise is of lesser value, distributors may disregard the manufacturer's suggestions with impunity.

Difficulties experienced in securing distributors' co-operation are in part the outgrowth of unwise policies. If they have chronic complaints and nothing is done about them, co-operation is unlikely even when reasonable suggestions are made. Complaints about overloading with product, breaking up territories which distributors have developed and assigning parts of them to others, permitted "invasion" of one dealer's territory by other dealers, cancellation of sales contracts without just cause, and improper apportionment of product in times of scarcity—all have had some basis in fact.

Some of these doubtful practices are much less prevalent than formerly. Surely there is less overloading of dealers, especially in the automobile and refrigerator industries. Perhaps territory "invasion" cannot now be legally withheld by the manufacturer. Breaking-up of territories and cancellation of contracts may be fully justified from the manufacturers' point of view if territories are not being handled effectively and, as a result, competing concerns are thriving. Often the distributor is at fault, and the manufacturer may have to make changes in self-defense.

While the subject of manufacturer-distributor relations cannot be treated exhaustively here, enough has been said to indicate the ne-

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[23] See "Dealers Take the Initiative," *Business Week*, June 17, 1950, p. 31.

cessity of a constant awareness on the part of the manufacturer of distributors' attitudes. If he tries too hard to get compliance on suggestions, the additional benefit secured may be more than counterbalanced by the ill will created. Often it is not fully recognized that the manufacturer has a selling job to do in reference to dealer helps and suggestions for operation, both at the wholesale and retail level. If the suggestions are "sold" effectively, i.e., if the distributor can be convinced that the manufacturer's suggestions will be helpful, then the distributor is likely to co-operate. Often how suggestions are made is more important than what suggestions are made. In other words, limitations imposed by distributors' attitudes may be at least partially removed by prior survey and testing of promotional aids, attention to distributors' grievances, and more effective presentation of ideas to them by the manufacturer's representatives. It is axiomatic that there is nothing of greater importance to a manufacturer than sound relations with his distributors. And manufacturers have to work at such relationships continually rather than taking the distributors' co-operation for granted.

REVIEW AND DISCUSSION QUESTIONS

1. There is a greater inclination than in the past to separate planning and execution in the field of sales management. Why? What indications are there that this separation has taken place?
2. What managerial functions are of particular importance in the administration of sales programs and campaigns? Indicate clearly the nature and importance of each function.
3. Characterize the scheduling problem for a sales program or campaign. Note the specific decisions which must be made in regard to each type of activity planned.
4. If a sales program does not proceed as planned and therefore is not particularly successful, what are the probable reasons for failure?
5. Under what conditions can sales executives be effective in the work of administrative co-ordination in regard to sales programs?
6. How would you define the term "leadership"? How is it most effectively exercised in business concerns? What are the personal attributes needed if a person is to supervise and co-ordinate the work of others successfully?
7. Classify the forms taken by manufacturer co-operation with distributive outlets.
8. It is common knowledge that many dealer helps are neither solicited nor even wanted, that they are often unused, and that, therefore, they may be of little value in the demand creation process. In view of this condition, attempt to outline a procedure which would make this type of promotional effort more effective in meeting the desired objectives.

9. What is the significance of the decision in the *Standard Oil Company* v. *United States* case (337 U.S. 293 (1949))? What are its implications for the future in reference to relationships between manufacturers or processors and their distributive outlets? Would you agree that, in this instance, the courts disregarded marketing realities?
10. If manufacturers wish to avoid attack by regulatory bodies under Sections 2(d) and (e) of the Robinson-Patman Act, what precautions should be taken regarding their promotional activities?
11. Refer to the Studebaker Corporation sales campaign schedule and attempt to answer the following questions:
    a) Characterize the over-all strategy of this sales campaign.
    b) What were the specific objectives of each of its phases?
    c) Are there points in the schedule at which insufficient time may have been given for certain activities? Was the schedule too "crowded" for maximum effectiveness?
    d) Was the sales training activity, in your opinion, effectively scheduled?
    e) What policies evidenced in this campaign and what particular types of activity probably contributed most to the excellent results attained?
    f) Contrast this sales campaign with others you have observed for motor vehicles. Would you consider this a typical campaign for high-value consumers' durables?

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PART VI

MANAGEMENT OF SALES AND SERVICE PERSONNEL

Chapter XVII

MANAGEMENT OF SALES AND SERVICE PERSONNEL

THE CONTENT of the forthcoming chapters on the management of sales personnel is well indicated by the definition of sales management recently proposed by the Committee on Definitions of the American Marketing Association. This definition is "the planning, direction, and control of personal selling, including recruiting, selecting, training, equipping, assigning, routing, supervising, paying, motivating as these tasks apply to the personal sales force."[1] While, in this textbook, a broader concept of the field of sales management has been suggested, one which includes all the managerial aspects of marketing, still the management of sales personnel is considered by all teachers and practitioners as a major activity of executives in the marketing field. In some instances, it is the principal task of sales managers and vice-presidents in charge of distribution, perhaps even the only task of sales managers. More often than otherwise, however, they are also given responsibility for planning and execution of other aspects of the sales effort, for product planning, pricing, and other managerial functions.

The term "management of sales personnel" should not be construed too narrowly. The differentiation between salesmen, agents and dealers from the point of view of their amenability to the influence of management is only a matter of degree. Many dealers are

[1] "Report of the Definitions Committee," *The Journal of Marketing*, Vol. XIII, No. 2 (October, 1948), pp. 202–17.

legally independent, for they purchase products outright and depend upon the margins between cost and selling price to meet expenses and provide a profit. Nevertheless, they are often subject to a considerable measure of control and supervision by manufacturers much as salesmen are. The value of an exclusive agency granted by a manufacturer in a given territory may be sufficiently great to induce compliance with suggestions as to methods of operation.

Motor vehicle dealers provide a good illustration. Although they are independent businessmen, they are, nevertheless, included in the group subject to managerial influence. Dealers must be selected as well as salesmen. For the handling of some products, both they and their salesmen and service people are usually trained by the manufacturer. Dealers may be given definite assignments both as to the territory which they shall cover and as to the volume of orders which they are expected to secure in the assigned territory. They need stimulation in order to do effective work. It is given through periodical contact with company representatives, through sales conventions, and incentive forms of discount. Dealers are also subject to various other types of control procedure. The principal difference between the management of a sales force and the management of dealers is that control of dealers is not so absolute. From this brief discussion, it should be apparent that the management of sales personnel is not limited to a company's salesmen, servicemen and home office workers but carries over to agents, dealers, and often to their salesmen and servicemen likewise.

In planning the sales effort, personal selling usually holds the major position. There are a few instances, however, in which it is subordinate to other types of effort, for selling may be accomplished largely, or even entirely, by advertising and correspondence.[2] The proportion of the sales expense budget utilized for personal selling depends upon numerous factors, the most important of which is the channel of distribution used by a company. When a manufacturer sells directly to consumers, or even to the retail trade, the expense budget assigned for personal selling is likely to be considerably greater than when sales are made through brokers to wholesalers or institutions, or to wholesalers directly. When a manufacturer sells his entire output to one or a few large buyers, all selling expenditures, including those of a personal character, may be low. Usually, however, selection and management of the sales force is an important activity of executives, and one

[2] For information on the relative expenditures for personal selling and advertising of corporations which manufacture different types of products, see releases by the Federal Trade Commission in 1940–41 under the title "Industrial Corporation Reports." For instance, these releases indicate that in the year 1939 soap, cottonseed-product and cooking-fat manufacturing corporations spent 13.77 per cent of total net sales on advertising and only 7.61 per cent on personal selling. In contrast, biscuit- and cracker-manufacturing corporations spent 20.61 per cent of total sales on personal selling and only 3.45 per cent on advertising.

in which a large variety of difficult and time-consuming problems are encountered.

A Specialized Area—The Field of Personnel Management

The management of sales personnel is a specialized area in the broad field of personnel management. While the problems do not differ materially in kind, they do differ in degree from those encountered in personnel work directed at office or factory workers. These differences proceed largely from the nature of the selling task. Often there is little opportunity for direct and immediate supervision and control of salesmen as they may operate over wide areas and visit the home office but infrequently. The extent of contact with, and supervision over, the sales force is at best greatly limited and varies among companies, depending upon the nature of the product sold, the geographic area covered, and the type of customer solicited. Active supervision, if there is such, must often be exercised at long range even though recent improvements in transportation have made the problem less difficult than formerly. Moreover, salesmen work not in shifts or gangs as do industrial workers but independently. This fact coupled with the territorial distribution of effort may eliminate, or at least minimize, the emergence of problems resulting from group consciousness or group action. Union activity has not found as ready a foothold among manufacturers' salesmen as it has among office and factory workers. But, in contrast, the difficulties of instruction, control, and stimulation have been enhanced.

Work of this character must either be done at long range with salesmen individually, or they must be brought together at central points, perhaps at the home office, to be handled as a group. Long range effort of an instructional or supervisory character is not particularly satisfactory but, on the other hand, getting a group together is costly. In order to enhance salesmen's effectiveness and reduce the cost involved, various compromises between these procedures have been evolved.

While the differences between personnel management for salesmen and for office and factory workers are notable and condition the problem involved, still the nature of the task is much the same in each instance. It is a task involving the manipulation of human material. In either instance, it is first a problem of predicting human behavior on the part of individuals who may become associated with the business enterprise, and later it is a problem of controlling the behavior of those who are selected for employment. The task of management starts with job analysis—an attempt to break down the task of the office worker, the factory worker or the salesman into its component parts. It then proceeds to an analysis of the human attributes, both

inborn and acquired, which are needed to perform the job and on to recruiting, selection and training, assignment, supervision, stimulation and compensation.

Interrelation of Activities

All activities related to the management of sales personnel are closely related. If the selection of salesmen is inadequate and people are hired without the qualifications which are needed, the tasks of training and supervision become more difficult. If training is neglected, salesmen may lack knowledge of the product being offered and the needs of buyers. They may also be ineffective in customer relations and in other ways. Then much greater emphasis must be placed on the problems of supervision and control. If a company's compensation policy is unsound or poorly administered, able men will not stay with the company and less able men will be less productive than they otherwise would be. Without belaboring the point further, it should be apparent that it is all a question of the proper adjustment of the individual to the job; and any part of the adjustment process, if neglected or performed ineffectively, will place an increased burden upon the other parts of the process. Statements to the effect that efficiency in personal selling is largely a matter of selecting the proper compensation plan, that sales training is the one most important activity of sales managers, or that supervision and control are the most important activities are questionable generalizations. One part of the over-all task—selection, for instance—is more important than others only by virtue of its position in the time sequence. Someone has said that the art of sales management is shown by getting better than average performance out of a group of average men. Perhaps this is true, but it implies that there is no skill in performance in recruiting and selecting salesmen. In other words, it narrows the content of sales management to which human ingenuity can be applied with successful results. Only through giving each part of the management task its proper attention can a sales force be so molded and directed as to produce maximum results.

Importance of the Managerial Function

The importance of the managerial function in reference to personal selling will become more apparent as we proceed through forthcoming chapters. There are a number of considerations of a general character, however, which should constantly be kept in mind as we go forward in our discussion. One of these considerations is that presentation of the product to the potential buyer is the culmination of the whole marketing process. Everything which has preceded this step is by way of preparation for making the sale. Other forms of de-

mand creation, product planning, pricing, and so forth, may reasonably be considered as preliminary steps which are not realized upon fully *unless* there is effectiveness on the part of the salesman when he interviews the prospective customer.

It is thus apparent that much depends upon the work of the salesman. Moreover, to many customers and potential buyers the salesman *is* the company. While this may be considered an overstatement, nevertheless, the only company representative with whom the customer may come into contact, regularly, at least, is the salesman. Company reputation for fair dealing, attention to the buyers' needs, and prompt and courteous service rest very largely in his hands. This is an arresting consideration and one of which top management should always be fully aware. In his own territory, a salesman can jeopardize the competitive position of his company by his attitude or activities, or by his failure to perform the duties assigned to him. Unless management is alert, deterioration in customer relations and thus in competitive position can take place over many months without knowledge of it by the home office. Effective management of sales personnel consequently assumes considerable importance in view of the fact that the salesman occupies such a strategic position in the company which he represents.

Another consideration which emphasizes the need of effective management is the presence of certain fixed or relatively fixed costs in personal selling. Among these is the cost of transportation. It costs just as much to transport an ineffective salesman to a prospect as one who is fully prepared for the tasks of selling. Maintaining a salesman in the field likewise does not vary with the effectiveness of the man. Moreover, the equipment by way of catalogues and other promotional material is likely to be standard for all sales representatives. The work of training, supervision, and control is likely to be more extensive for the less effective men. Only the salesmen's salaries may constitute a variable expense—one which is reduced for less efficient men. But even for this cost item, it is doubtful whether salaries vary in proportion to actual performance. There is some evidence available that good salesmen are paid less relatively than they deserve in view of the results which they achieve. Inasmuch as these relatively fixed expenses must be defrayed in order to get to potential buyers, it is highly important that salesmen, through management, be at least reasonably effective. The point, simply stated, is that the expenses assumed by a company do not vary directly with the effectiveness of salesmen and, therefore, to reduce expenses per unit of sales, the performance of salesmen should be increased through more effective management.

There has been a growing appreciation among sales executives of the costs, both direct and indirect, involved in a high turnover rate

for the sales force. There is a substantial investment in salesmen by a company, even when training and other preliminaries to productive work are held to a minimum. In certain instances, the investment may be as much as $1,500 or $2,000 per man before the salesman becomes productive and begins to contribute to net profits. If turnover is rapid, this investment is partially lost. There is an indirect cost also partly revealed by a high turnover rate. It is the indirect cost of faulty and ineffective representation over periods of varying lengths in different territories. Moreover, there can be little doubt that these costs are substantial. They lie in neglected opportunity—in the use of a blunt instrument where and when a sharp instrument might have produced sales volume. Poor representation may also result in dissatisfaction and ill will on the part of customers which may continue after the offending salesman has quit or been replaced. It is one of the major tasks of management in this field to prevent a high turnover rate from preventable causes.

Responsibility of Management toward Sales Personnel

Much has been said in recent years about the responsibility of management toward workers in various fields of activity in the individual business enterprise. The impression is often given that no other responsibilities exist or, at least, that they are of minor order. The primary responsibility of management is to make business enterprises economically effective in the production of goods and services by the successful combination of land, capital goods, man power, and managerial skills. By so doing, other responsibilities—to workers at different levels, to those who furnish capital, to administrators and managers—can be assumed. There is no primacy in the responsibility to workers, which is so often implied if not specifically stated. Nevertheless, there is a responsibility to create an environment in which workers can realize upon their inherent abilities, if they so desire and are willing to do their part. This applies to workers in the field of selling as well as in other types of employment.

The responsibility of management toward sales personnel is suggested by the following definition of personnel administration. "Personnel administration is a code of the ways of organizing and treating individuals at work so that they will each get the greatest possible realization of their intrinsic abilities, thus attaining maximum efficiency for themselves and their group, and thereby giving to the enterprise of which they are a part its ultimate competitive advantage and its optimum results."[3] This definition reveals a broad philosophy

[3] Thomas G. Spates, *The Scope of Modern Personnel Administration* (Reading Course in Executive Training, Section 111, Book 1, edited by Carl Heyel) (New York: Funk & Wagnalls Co., 1948), p. 21.

of management in the personnel field. It suggests that the relationship between the business enterprise and employees must be mutually advantageous and satisfactory. It likewise suggests that successful management of sales and service personnel is not merely a matter of using acceptable techniques for performing specific tasks, such as selection or training. It is also a matter of motivation and attitude. For instance, certain techniques may be used because sales executives believe that their use will not only effectively serve their company's interests, but also will effectively utilize and conserve human material and aid in the establishment of a higher standard of living by bringing about a better adjustment of sales people to their jobs. This general philosophy is often expressed by the statement that it is the task of management to build men as well as products.

Management has often been criticized in the past for its attitude toward sales personnel. Assertions have frequently been made, and with considerable justification, that field sales personnel have been ineffectively handled by many companies and that human values have thus been sacrificed. Just why there has been inattention to problems involving sales personnel and, at times, actual mismanagement, is difficult to determine. Perhaps it has been the result of relative overemphasis by top management on the production and financial phases of business, with consequent neglect of marketing problems. Often it is the outgrowth of the failure to devote sufficient funds to personnel management in the selling field. More often, it has been the result of employing sales executives who did not have the proper attitude toward their managerial tasks. For instance, training and supervision have often been neglected. New salesmen have been put into the field on a "sink or swim" basis, with the result that some men, who would have become effective salesmen under other conditions of orientation to their jobs, have lost confidence, become discouraged, and shifted to other types of employment. Altogether too often the administration of personnel policies has been faulty. The following pertinent statement by Philip Salisbury, editor of *Sales Management*, indicates that policy is not enough; that it must be effectively applied.

> So far as salesmen are concerned, it isn't just enough to announce that a sales manager has an "open door" policy: he must go further than that. He must consciously and aggressively try to find out what is bothering his salesmen; he must spot, appraise, and spike grievances, or he will have poor morale and that poor morale will result in low sales volume, a high rate of turnover, and, if present trends continue, he will wake up one morning to find that he is dealing with a union representative instead of with one of his own salesmen.[4]

[4] Philip Salisbury, "The Importance of Management in Marketing," *Management in Marketing*, S. B. Stocking (ed.) (Toronto: University of Toronto Press, 1947), p. 19.

The Question of Unionization

Unionization of salesmen has made substantial progress in recent years, particularly in those fields in which sales people are concentrated geographically, as in retailing and wholesaling, likewise in those fields in which there is some connection with other unionized groups such as truckers, mechanical and service occupations. Driver-salesmen for food and beverage manufacturers or for wagon distributors are cases in point. Apparently the strongest unions, other than in retailing, have been developed among beverage, food, and automotive vehicle salesmen, and among people who set up advertising displays. Geographically, the movement seems to be strongest in the large cities in the East and in the Seattle area. As yet relatively few salesmen who represent manufacturers or processors have been unionized, although there have been isolated efforts to do so and some notable successes.

There appears to be a consensus that unionization is growing and will continue to grow in the future. Businessmen must, therefore, look forward to unionization of salesmen as a distinct possibility and, if it is considered prejudicial, must take steps to guard against it through improvement of personnel policies and in their administration. Moreover, a good case can be made for the contention that unionization would be prejudicial unless the unions adopted enlightened policies. Too many restrictions imposed by unions on assignments to salesmen, employment and dismissal, changes in residence, and compensation methods would seriously burden management in the performance of its tasks. Therefore, management must have the authority to adapt the marketing effort to ever-changing market conditions and would be hampered by practices of unions if they were unduly restrictive.

Manufacturer's salesmen will not be an easy group to organize. The salesmen of any one concern are likely to be scattered geographically and, because of this fact, will be difficult to organize even if disgruntled over the treatment which they receive. Although there are many salesmen living in any urban center, most of them will be disinterested because of a lack of grievances, relatively high salaries, freedom and independence of action, and an individualistic attitude. Many salesmen feel like individual enterprisers and particularly so if they are compensated on a commission basis. They do not have a group feeling, which is so essential to unionization. Moreover, they feel more closely associated with the management group than with the worker group. But despite these considerations, the unionization movement among salesmen will go forward unless an enlightened personnel policy eliminates those conditions from which grievances develop.

Reasons for Salesmen's Discontent. Many of the specific things

to which salesmen object will be discussed in the forthcoming chapters. Attempts have frequently been made to determine the attitude of salesmen toward their jobs and toward their sales managers.[5] In general, they object to arbitrary action on the part of management, or at least what seems to them to be arbitrary, in reference to reduction of commissions, changes in territorial assignments, expense allowances, penalties for credit losses, and a host of other factors. They feel that they should be consulted before decisions are made which may greatly affect their opportunity for promotion, their daily activities, their places of residence, and, in particular, their earnings. They feel that sales managers often do not have a sympathetic understanding of salesmen's problems, in part because they spend too much time in the office and too little time in the field.

Another general objection is the lack of opportunity provided for a really successful career. Salesmen wish an opportunity to progress in accordance with their ability, training, and experience. Moreover, they, like all Americans, resent inequality of opportunity. Through the assignment of territories, the establishment of commission rates, the planning and administration of contests, in promotion, and in many other ways, equality of opportunity is often denied some members of sales forces. While it is impossible for management to act in such a matter that *all* discrimination is avoided, still it can be avoided to a considerable extent if management plans and operates wisely through painstaking attention to personnel policy and administration.

A "Sales Manager's Creed"

After the National Sales Executives made an investigation of the attitudes of wholesale salesmen toward their jobs, numerous complaints and grievances were isolated which might lead to unionization. To encourage sales executives to improve relations with their salesmen a "Sales Manager's Creed" was formulated by a Committee on Employment Standards for Salesmen. It was called the first attempt to define and standardize sound, practical, and equitable working arrangements between the employer and his sales force. It is as follows:[6]

A Creed

I subscribe to this Sales Manager's Creed, prepared by the National Federation of Sales Executives, which I believe to be in the best interests of American Business:

[5] See Harry R. Tosdal and Ross M. Cunningham, *What Salesmen Think of Sales Managers*, chap. ix (Boston: Boston Chamber of Commerce, 1942–45); also, Robert A. Jenkins, "The Forgotten Man in Compensation Planning," *Sales Compensation Plans*, Marketing Series, No. 61 (New York: American Management Association, 1945), p. 17.

[6] National Sales Executives, New York, 1950.

I. *All salesmen shall receive* fair compensation during their initial or subsequent training periods.

II. *While recognizing changes* in compensation or territory to be functions of sales management, salesmen shall be consulted prior to establishing such changes and given reasonable notice of the effective date.

III. *Earnings of commission* or bonus salesmen shall be unlimited, unless otherwise specified at the time of their employment. Should basic changes in a business justify modifying this policy, all salesmen affected shall be advised of the fact a reasonable time prior to establishing such ceilings as become necessary.

IV. *When evaluating the ability* of salesmen, conditions beyond their control such as differences in the sales potentials of territories, shall be given full consideration.

V. *Salesmen shall be offered the same vacation*, job or income security, and other employee benefits as are enjoyed by other employees in comparable positions in the same company.

VI. *The only "house" or "no commission" accounts* shall be those clearly defined in advance of solicitation.

VII. *Salesmen's expense* reimbursement policies shall be uniform, after taking all variations of conditions into consideration.

VIII. *A sharp distinction* shall be drawn between salesmen's earnings and expense allowance, and any system which affords salesmen either a substantial profit or loss on expense accounts, shall be corrected.

IX. *Salesmen shall be given either a contract*, agreement, or letter covering those conditions of their employment which might otherwise be the basis for later misunderstandings.

X. *If quotas are used*, they shall be based on reliable seasoned personal evaluation of accurate and adequate criteria, and salesmen should know how their figures have been determined.

XI. *A salesman whose health* or well-being gives evidence of being prejudiced by the nervous tensions involved in his work shall be given such relief as may be possible.

XII. *Pressure to achieve results* shall be of a constructive nature avoiding the use of "fear" psychology or threatened loss of employment.

XIII. *The paper work* required of salesmen shall be held down to a minimum and its value clearly justified.

XIV. *A salesman with a grievance* shall be provided with a simple means of stating it. Any such statement shall be promptly considered and answered no matter where the salesman may be located.

Signed _____

The Desirability of Contracts with Salesmen

There has been considerable difference of opinion among sales executives about the desirability of written agreements with salesmen. Now, however, executives apparently regard such agreements more favorably than formerly. Section IX of the NSE Creed suggests the

desirability of a contract, an agreement, or a letter covering the conditions of the salesman's employment and states that such definiteness in arrangements helps to avoid later misunderstandings. While this is undoubtedly an important objective, there are others of equal significance, among them protection of the salesman against arbitrary action by the company and of the company against unauthorized action by the salesman. The contract is essentially a statement of rights, duties, and privileges, both of the company and the salesmen, whereby control is exercised over the relationship between the two parties.

Contracts with salesmen are likely to be concerned with some or all of the following matters:

1. Assignments—territorial delimitations, products to be sold, types and sizes of customers to be cultivated.
2. Method of compensation, use of drawing accounts, handling of expenses.
3. Requirements in reference to reports, other records, and handling of orders.
4. Transfer of rights under the contract, cancellation, and termination.
5. Limits of authority to be exercised by the salesman on acceptance of orders, price quotations, settlement of complaints, verbal warranties on the composition or quality of products, contraction of debts for the company, signature or endorsement of the company's name on commercial papers, contracts, etc.
6. Protection of the company through the requirement of a surety bond.
7. Property rights and property uses by the salesman in reference to motor vehicles, samples, promotional materials, inventions and product improvements made by the salesman during employment.
8. Time limitations on objections to statements of account.
9. Responsibility of the salesman to devote his entire time to the company, to refrain from concurrent part-time jobs, in particular from selling products other than those of the company, either new or used.
10. Post-employment activity—to refrain from selling competing products in the territory previously cultivated for an extended period subsequent to termination of employment.

An analysis of the salesman's task strongly suggests that written assignments with provisions of the type just listed are needed. The arguments against them, in particular, that they are difficult to enforce, that they make more difficult the discharge of incompetent salesmen, and that they actually are not needed in most instances, are not convincing. When it is considered that salesmen represent their companies before third parties, and usually make collections and disburse company funds for the defrayal of expenses, take responsibility for company property, and work most of the time without immediate supervision, the need for definiteness in regard to their rights, duties,

and privileges becomes apparent. While formal agreements are not needed to a like extent by all concerns, the presumption is in their favor, especially when the aforementioned conditions are present.

Improvement in Management of Sales Personnel

Most sales managers would probably be in substantial agreement with the various provisions of the NSE Creed. It is one thing, however, to be in agreement and another to put principles such as these into practice. In recent years, the performance of management in regard to sales personnel has markedly improved. Perhaps this improvement has been prompted in part by a growing realization that those companies with better personnel policies were gaining a competitive advantage thereby. Perhaps a growing consciousness of the cost of high turnover among salesmen has prompted better performance. At least interest in the personnel aspect of sales administration developed rapidly in the early years of the 1920–30 decade. By the end of 1925, there were numerous publications on the selection and training of salesmen. From that time on, interest continued unabated until the beginning of World War II. During the war there was little constructive thinking, investigation, or publication on problems of handling sales personnel because such problems were minimized by the relative scarcity of goods. At the end of the war, interest in these problems again revived, and numerous publications have appeared dealing with selection and training of salesmen.

There is now much evidence that both interest in developed procedures in the management of sales personnel and their actual use has filtered down to smaller concerns which had no part in the pioneer work. To the majority of concerns, it has become apparent that mere insistence on success in selling will not achieve success, and that enlightened management must help to create conditions under which success can be achieved. Many companies now try to provide their salesmen with the widest possible opportunity for individual growth and for advancement to positions of greater responsibility, authority, and earning power within their companies. This is evidence of sound business policy and sound management. It will react not only to the benefit of salesmen but to the enterprise as a whole and toward the continued maintenance of the free-enterprise system.

REVIEW AND DISCUSSION QUESTIONS

1. Why should this topic of management of sales and service personnel be construed broadly to include distributors of a company's products as well as its own sales personnel?
2. How does the management problem differ as between factory and office personnel, on the one hand, and sales personnel, on the other?

3. What considerations of a general character emphasize the importance of the managerial function in its application to field selling forces?
4. The National Sales Executives' Creed is, in fact, a standard of conduct. What questionable practices in regard to salesmen by management are suggested or implied by this creed?
5. What, in your opinion, are the barriers to unionization in the selling field?
6. "Philosophy" may be defined as "practical or moral wisdom." With this definition as a point of departure, what should be the philosophy of executives in regard to the management of field selling forces and the selling profession?

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Chapter XVIII

RECRUITMENT AND SELECTION OF SALES PERSONNEL

For most large manufacturing and wholesale concerns the task of recruiting and selecting sales personnel is a continuing one. Where there is freedom of choice both in selection of occupation and of specific job as there is in a democracy, large groups are rarely stable in composition. People resign because other jobs look more attractive or because of discouragement or disability. Turnover in a sales force is expected and replacements must be secured if sales volume is to be maintained. While turnover may be excessive and the result of preventable causes, some shifting of men from occupation to occupation and job to job is highly desirable in any economy. Only in a fluid situation can men find the employment in which they are most effective and the business connections which, all things considered, will yield the greatest rewards and satisfactions. Turnover is a part of the adjustment process whereby a sales force is improved in quality, or developed by a new concern or by one which is attempting to expand through the introduction of new products or the exploitation of new markets.

Thus the recruitment and selection of sales personnel is a part of the broader problem of adjustment of individuals to jobs. It is a question of getting the *right* man in the *right* job. Adjustment may be attempted or achieved in many ways: through initial selection, through sales training, through the accumulation of experience on the job, or through control and supervision by sales executives. Much can be done through careful attention to the orientation of men to their jobs. Nevertheless, if adjustment through initial selection is effective, the remaining steps in the adjustment process will be much less difficult than otherwise. If it is not effectively accomplished, the subsequent task of management may be in the nature of fitting round pegs into square holes. In other words, while people who are not well adapted to a particular job may, in time, become moderately successful despite that fact, in all probability success is achieved only by great effort on their part and by continuous effort in their behalf on

the part of management. A statement by a sales manager to the effect that a certain salesman should not have been hired initially is not at all uncommon. Such a statement is more often than otherwise a reflection of the difficulties encountered in making him an effective and responsible member of the sales force.

RESPONSIBILITY FOR RECRUITMENT AND SELECTION

The size of the concern, the nature of the products manufactured or sold, and the attitude of top management toward the desirability of specialization in the handling of particular functions may all have a bearing on the delegation of authority and responsibility in this field. In small concerns which manufacture few and relatively nontechnical products, the president or general manager may take complete responsibility for hiring salesmen. In somewhat larger concerns responsibility may be given to the sales manager, with possible review of tentative decisions by higher executives. Application blanks, personal interviews, and references are likely to be used in arriving at decisions. Recruiting is greatly aided by personal contacts in the community and little difficulty is experienced in securing adequate and correct information about applicants. There is relatively little need under such conditions for specialization in function. Nor would specialization be practicable when salesmen are hired infrequently and for routine selling of relatively nontechnical merchandise.

In larger concerns, particularly in those which sell directly to dealers or to other numerous buyers, and, therefore, have need of a large sales force, responsibility for recruitment and at least for preliminary selection may be given to a particular group in the sales department, or, perhaps, in the personnel department. The problem is a continuing one of very substantial proportions. Chance contacts with potential applicants cannot be relied upon to secure either a sufficient number or the desired quality of men. If the training of salesmen presents unusual and difficult problems, as it does for the office machine manufacturers, a director of sales training may be appointed and given responsibility for selection as well as training. At times, the services of outside specialists have been utilized for this work. Management consultants have been retained to develop procedures for selection. Whenever recruitment and selection assume substantial proportions in an enterprise, specialization in this work is desirable. Only through recourse to people with particular abilities and training can the work of recruiting and selecting salesmen be effectively handled under such conditions.

The question frequently arises whether sales branches or divisional offices should be given responsibility for recruitment and selection or

whether such work should be concentrated in the home office. Large concerns with sales branches throughout the United States hesitate to centralize responsibility for the performance of these functions, despite the fact that a greater degree of specialization with its recognized advantages will follow. Many people believe that selection from the area in which a man will subsequently work produces the best results. The problems of moving and of making the necessary adjustments to a new environment are minimized. Contacts which may prove advantageous in the new employment are preserved. Branch managers and salesmen can be constantly on the watch for men with the desired characteristics. Recruitment in the field thus broadens the area in which men are recruited. A strong case can therefore be made for recruitment and at least preliminary selection in branch offices under procedures developed by specialists in personnel management in the home office. Whether final selection should be made in the branch offices is much more doubtful. In some cases, all the information on the prospect is sent to the home office for evaluation and, perhaps, for final decision. The prospect may be asked to come to the home office for interviews and further testing. Or it may be felt that the objective evidence is sufficient for the making of decisions if, as a part of it, there is included written material on the reactions of the branch manager and others who interviewed the prospect.

When there is divided responsibility in recruitment and selection between the home and branch offices, there is always the possibility of disagreement. Perhaps a branch office manager is thoroughly sold on a prospect and has a specific assignment in mind for him. If the home office does not agree that the prospect would become a successful salesman and turns his application for employment down, there may be dissension which may in time become acrimonious and destructive of *esprit de corps*. A few negative decisions on the part of the home office might be accepted in good grace but repeated rejections are likely to be resented. In order to preserve harmony, there should be the opportunity of resort to a third party, such as the sales manager or the vice-president in charge of distribution, for a review of the case and final decision.[1] In those instances in which people are hired despite disagreement, particularly complete records should be kept of their performance. Such records should reveal not only which party to the disagreement was right in his judgment, but also the rea-

[1] While review and adjudication by a superior officer of disputed decisions on selection should be provided for, it is doubtful whether errors in selection are made frequently by a home-office selection group. In one instance, the president of a company made the following comment, "Of the few men hired by our branch managers, despite negative recommendation by the selection board, a large majority drop off within a few months, many of them even before finishing the training program." George L. Todd, "65% of the Men We Hire Now Stick and Succeed," *Sales Management*, Vol. LIX, No. 12 (December 1, 1947), p. 99.

son for success or failure. They should thus be useful for future guidance in improving selection procedures.

NATURE OF THE PROBLEM

Prior to the actual employment of men for selling or service positions, management must take four principal steps of a procedural character. They are as follows:

1. *Job Analysis.* The first step in job analysis is to classify the positions in selling and service activities. The second step is to break down the over-all task in each unit of the classification into its component parts in terms of duties. These duties should be clearly defined, and their relative importance indicated.

2. *Determination of Necessary Qualifications.* In view of the nature of each particular job as analyzed previously, the human qualifications, both innate and acquired, needed for the job should be determined by deduction, observation of salesmen in the field, or by a continuous effort to relate the characteristics of salesmen to records of performance.

3. *Recruitment of Sales Personnel.* This is largely a matter of determining the most acceptable and fruitful sources of men with the necessary characteristics and of making arrangements to tap such sources at periodic intervals or when the need for new personnel arises. For large concerns there is the additional step of forecasting personnel requirements in the selling field some time in advance of need. This requires a careful inventory of present personnel and its capabilities in the light of a company's forecast of business activity in future periods.

4. *Determination of Characteristics Possessed by Applicants.* This is a screening operation, or selection per se. From a group of people who might be interested in working for a company in sales positions, those with the nearest approximation to the levels of qualification thought necessary, or at least highly desirable, are chosen for employment.

The work involved in these four principal steps may be formalized in definite procedures or it may be done haphazardly, but in any event the steps must be taken. Each of these four steps will now be considered in some detail.

JOB ANALYSIS

To many people, the connotation of the term "job analysis" may include both analysis of the job itself and an analysis of the qualifications needed in personnel to handle the job effectively. Explicitly, however, it refers only to the job itself and not to the matter of quali-

fications. Here we are concerned with job analysis per se—the question of what the salesman is expected to do after employment. It would seem to be a truism that management must know what work is to be done before men are hired to do it. Sales managers do know, at least in a rough way, what is required of salesmen in the sale of their companys' products. Their own knowledge of a salesman's work gained from actual field experience or from observation serves as a guide in selection of new personnel. But altogther too often management relies too greatly upon a general knowledge of the salesmen's tasks. A complete and painstaking analysis of the duties of salesmen in the light of the difficulties encountered can be a most useful tool of management. Such an analysis can be used as the basis not only for determining the traits and characteristics required in salesmen, but also for sales training, for the determination of compensation levels, and for the evaluation of performance.

Making Job Analyses

Most companies, particularly the larger ones, have representatives in the field with markedly different duties. The first step, therefore, is to recognize a classification of these representatives in reference to duties performed. A company may have, in addition to salesmen, servicemen, combined salesmen and servicemen, missionary salesmen, specialty salesmen, and branch managers and supervisors who likewise do some selling. Each class must be treated separately in the work of job analysis. The second step is to classify duties for each group. This can be done at least roughly without observation of men in the field. The salesman's duties may be broken down into four classes: (1) planning activities such as preparation of prospect lists, determination of itinerary, advance consideration of prospect's needs; (2) actual selling to the potential buyer, including making contacts, presentation of the company's products, meeting objections, and attempting to close the sale; (3) technical service activities, such as a survey of buyers' needs, demonstration, control of parts inventories, and after-service; (4) clerical duties, including correspondence, reports, expense accounts, and the like. In addition, salesmen are often given duties in relation to credit such as securing information on the credit standing of customers, assessing the credit risk, and making collections of accounts.

The task of making job analyses should not be done entirely at the home office. It is desirable to allow branch managers, supervisors, people in charge of sales training, and salesmen to participate in the work. The procedure used by one company was as follows: "The first step we took in preparing the analysis was to request each of our eight regional managers to set down his version of the salesman's job.

At the same time, our home-office executives independently prepared similar analyses, the result of this attention being that we arrived ultimately at a comprehensive job description upon which to base our employment, training, and supervising procedures."[2]

Field investigation may likewise yield substantial results in determining what salesmen do or should do. In one study of the sales interview, it was found that some salesmen habitually checked the dealer's stocks while other salesmen failed to do so. Furthermore, it was observed that at times the dealer checked his stocks while the salesman waited, at times the salesman made the check, and at times the stocks were checked by the salesman and the dealer jointly. Each of these procedures yielded different sizes of order. The conclusion reached was that the salesman should check the dealer's stocks and, preferably, jointly with the dealer if the largest order was to be secured. Field investigation of salesmen's activities may indicate that certain tasks are being accomplished of which management had no knowledge. It may also be discovered that management is expecting salesmen to assume responsibilities which had not been included or discussed in the sales training program.[3]

For purposes of illustration, two job analyses for the selling of entirely dissimilar products will be presented. The first of these is an analysis of a retail salesman's job for the Scott Paper Company, a well-known concern which manufactures a wide variety of paper products sold through retail outlets. Note the classification of duties and the extent of responsibility placed upon the salesmen. "Indirect retail outlets" are stores which buy the company's products through wholesalers.

Analysis of Scott Retail Salesman's Job

I. *Making the sale on Scott Products*
   - A. Sells new orders to indirect retail outlets.
   - B. Sells repeat orders to indirect retail outlets.

II. *Service on Scott Products*
   - A. Renders merchandising advice and assistance to retail outlets.
     1. Builds displays.
     2. Plans and conducts demonstrations.
     3. Distributes dealer helps related to Scott Products (including visual aids such as special display stands, price cards, folders etc.).
     4. Delivers our merchandise where required.

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[2] L. T. Thomasma, "Job Descriptions—An Aid in Sales Management," *Executive Service Bulletin*, Policyholders Service Bureau, Metropolitan Life Insurance Company, Vol. XXII, No. 8 (August, 1944), p. 5.

[3] For a thorough treatment of this subject, together with illustrations of job analyses, see H. G. Kenagy and C. S. Yoakum, *Selection and Training of Salesmen* (New York: McGraw-Hill Book Co., Inc., 1925), chaps. v and vi.

B. Secures newspaper and handbill advertising and other tie-in promotions from indirect customers (co-ordinates trade features with our company advertising campaigns).
C. Counsels with retail customers on most advantageous Scott resale prices. (Those that produce profits yet largest possible volume of repeat business.)

III. *Routine Duties*
A. Records daily calls and results and mails this report to divisional office daily.
B. Maintains selective selling records on our products and on leading competitive brands, and summarizes these periodically, upon completion of each route coverage.
C. Sends indirect orders to divisional office daily.

IV. *Executive*
A. Plans his daily and long-range work programs.
B. Helps in training of younger retail salesmen.
C. Observes facts in his territory that have a bearing on the sale of his products.
D. Works out new ideas and mails suggestions to superiors.
E. Studies and keeps abreast of merchandising and marketing in other fields. Discusses some of these problems with other salesmen and his superiors.

V. *Creating Good Will toward Himself and His Company*
A. Sells Scott Paper Company, its concepts and policies to retail dealers.
B. Offers retail dealers constructive merchandising ideas not related to Scott products.
C. Distributes dealer helps not specifically related to Scott products.
D. Continually strives to maintain and improve friendly relationship with retail customers.

The second illustration is taken from a manufacturer of record systems of control for business and industry. Essentially this concern is engaged in specialized printing although machines and devices are supplied as the most efficient method of feeding, aligning, and storing the business forms printed. The company largely depends upon repeat orders for printed forms after systems for handling paper work have been established and the original handling devices have been installed. The job description for salesmen of this concern is as follows:

JOB DESCRIPTION FOR SALESMEN

1. Must deal with executive-type personnel.
2. Prepares approach material by gathering through various sources information as complete as possible about prospects concerned before calling. Selects proper sales tools for making the first call.
3. Makes a detailed survey of a selected system or group of systems presently in use by the prospect.

4. Flow-charts all procedures in present system.
5. Applies principles of work simplification to improve present procedures. Designs. . . . Company business forms to fit the revised procedure.
6. Prepares written proposal to present to prospects.
7. Explains proposals and flow charts quite often to a group of executives in prospective concerns.
8. Communicates details of the orders to the home office and draws copy for the business forms as they are to be printed.
9. Arranges and holds clinics for executives from different companies, or for executives within one company, on the subject of work simplification as applied to office paper work.
10. Maintains three different types of personal sales records.
11. Must be familiar with principles and mechanical specifications of twenty or more different business machines.
12. Must be thoroughly familiar with printing specifications.
13. Spends 20 per cent of his time in personal selling. Eighty per cent of his time is devoted to methods study, office work, detail work.
14. Calls on customers for soliciting repeat order business where the question is largely that of handling the details in writing up orders and specification sheets.

This job description, although not classified, furnishes very useful information for determining the characteristics required in the company's salesmen, for indicating the content needed in the company's training programs, and for evaluating salesmen's performances.

Variation in Sales Jobs

While the fact of variation in sales jobs is generally known, it is strikingly apparent from an examination of job analyses. Even within a single company, there may be variation as noted previously because of specialization in selling, promotional, or service work. Among companies, the type of products handled, the nature of the buyer, the extent of demand and of competition all help to create variation in the sales task. Variations easily come to mind. For instance, the promotion of new drugs and medicinals through calls on doctors and hospitals, commonly known as detail work, is an entirely different activity from the promotion and sale of heavy earth-moving equipment.

DETERMINATION OF NECESSARY CHARACTERISTICS

Complexity of the Task

It has been suggested by other writers on this general topic that (1) it is comparatively easy to relate individual characteristics to the duties and difficulties of particular jobs, if these are known through job analyses; (2) that job analyses automatically disclose the qualifi-

cations needed with regard to personal characteristics, experience, and formal training. Of course, the degree of complexity in duties, as indicated by a job analysis, gives some idea of the type of man needed. With a complete description of the job at hand, it is surely easier than it otherwise would be to determine the type of individual needed to fill the job satisfactorily. However, job analysis is only the first procedural step; and the second step here under consideration is, in the opinion of the writer, a most difficult one. It is one which requires much by way of careful deductive analysis, as well as some resort to inductive procedures.

Complexity arises from the sheer number of human characteristics which may have a bearing on performance in a sales job. Some of these characteristics are more important than others in particular jobs. Therefore, the problem not only of selection, but also of rating them in importance, arises. There is the further problem of determining whether the selected characteristics can be acquired subsequent to employment and with what measure of success. Then the question of "how much" enters into the picture. For instance, for the sale of office machines, some proficiency in accounting is required. A decision must therefore be made on the extent of accounting training or experience needed for the job. Job analysis may strongly suggest a need for maturity on the part of salesmen; however, there may be no concrete evidence as to the degree of maturity needed such as would be indicated by age standards. Furthermore, a considerable degree of error is altogether possible if one individual, after going over a job analysis, attempts to state exactly what characteristics are needed in salesmen to perform that particular job. This comment should not be interpreted as a denial that deductive procedures may be helpful, but rather that one man's experience may be too limited for a correct determination of the qualifications needed, even though he does have a job analysis as a starting point. Through the joint effort of a number of people in an organization—each attempting to be objective in his judgments—a reasoned statement of the human qualifications needed for a particular sales position can be prepared. Later, through observing the characteristics possessed by highly successful salesmen on the job, the initial list of characteristics can be verified.

Altogether too often in the past, the qualifications needed by salesmen have been determined without reference to job analyses. This does not mean without reference to a particular job, but only that little effort was made carefully to determine and to state in writing of just what the job consisted, as a first step in the whole selection procedure. Nor have business concerns usually followed inductive procedures for determining the qualifications needed by salesmen. More will be said of these procedures later. Perhaps job analyses are less essential if the people in charge of selection are thoroughly familiar, through

actual selling, with the tasks involved therein. It is, nevertheless, a salutary experience to prepare job analyses, and they are most useful.

Characteristics by Type

It should be recognized that there are different types of characteristics which may contribute to effectiveness in the performance of sales work. There are personal characteristics of at least two types: those which are an expression of the attitude or temperament of the individual; and those of a physical character, such as height, weight, age, appearance, and physical condition. There are likewise characteristics which flow from experience and formal training, also environmental conditions which may strongly affect the work of salesmen—for instance, marital status, number of dependents, and living conditions at home. Differing combinations of the characteristics in each of these three broad groups may be equally effective. Weakness in one characteristic may be more than counterbalanced by unusual strength in another. For instance, strong motivation for success in selling activities resulting from environmental conditions, such as the needs of a growing family, may result in greater success than certain innate characteristics or previous experience. Sales executives have frequently said that greater motivation may well compensate for a lower level of natural ability, and that there is no effective substitute for a strong desire to make good on the job.

General Characteristics Needed

Not infrequently, sales managers, both individually and in groups, have asked themselves, "What characteristics are needed in salesmen if they are to be successful on the job?" In this connection they are thinking of the characteristics of salesmen as such, not of those needed for particular jobs with individual companies. Furthermore, they are usually concerned not with physical attributes, but with those which reveal attitude or temperament. Many lists of characteristics considered as necessary have been prepared, but they are always inconclusive and subject to much disagreement, chiefly because there is no such thing as a general selling job. Selling jobs differ markedly, and therefore require different levels of ability, experience, training, and even environmental conditions. Some reasonable purpose may be served, however, by thinking of personal attributes of salesmen in a general way.[4] A well-known advisor on selection and training listed

[4] In one instance the following statement on qualifications was made: By agreement of psychologists and practical counsellors offering testing service, the traits and qualities found in successful salesmen are: (1) emotional stability, (2) self-sufficiency, (3) objective-mindedness, (4) dominance, (5) self-confidence, (6) so-

four chief qualifications as necessary for success in selling: namely, (1) motivation suitable for the job, (2) the power of persuasion, (3) the ability to make friends, and (4) self-reliance.[5]

Salesmen should be courteous and sincere and they should have at least a reasonable measure of self-reliance. They should have sufficient ability and intellectual curiosity to become interested in the problems of the prospective buyer. They should be physically vigorous and active. They must neither be easily discouraged nor indicate any lack of self-confidence to the prospect. It is important that they be accurate in knowledge, orderly in their thinking and language habits, and capable of planning their activities effectively. As general qualifications, these are surely important for salesmen, but there are others just as important for particular jobs.

Characteristics Based on Experience

Characteristics based upon experience are not considered important by many companies. Whether they are considered important depends upon a basic policy decision. Apparently a company has three broad classes from which to choose salesmen: (1) young men with limited or no experience; (2) men with several years of selling experience in the same line, kindred lines, or in an entirely different field; (3) star salesmen, possibly with competing concerns. Of 232 concerns in a wide variety of fields, 53.4 per cent had no special requirements in the selection of salesmen; 27.2 per cent selected salesmen from their own employees; and 19.4 per cent required previous experience in outside organizations.[6] There was no marked preference, in any particular industries, for men with experience in selling.

Obviously, a man has to start with some concern when he takes up selling work. If a concern always looks for people with experience, they are shifting the burden of training salesmen to other concerns and inducing turnover. Perhaps for some concerns, particularly small ones, this may be the best policy because formalized selection and training of only a few men may be too costly. But for larger concerns, as noted above, experience qualifications are not insisted upon, and, as a matter of policy, young men without selling experience are

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cial-mixing qualities, (7) tact and diplomacy, (8) sizing up people in situations, face to face, (9) sense of humor, (10) sales aptitude (a specific term, not to be confused with sales aptitude in general), (11) mental ability. J. Robert Hilgert, "Use of Sales Aptitude Tests," *Harvard Business Review*, Vol. XXIII, No. 4 (summer, 1945), p. 484.

[5] William Rados, *How to Select Better Salesmen* (New York: Prentice-Hall, Inc., 1946), pp. 6–11.

[6] National Industrial Conference Board, Inc., *Personnel Policies Affecting Salesmen* (Studies in Personnel Policy, No. 4) (New York, 1938), p. 7. Data are given in this publication on minimum educational requirements, experience requirements, and minimum hiring age for companies in each of fifteen broad industrial classes.

hired if they have other qualifications which are considered necessary. For example, the president of a large textile company said, "There was a time when we thought it necessary to employ salesmen with wide acquaintanceships; those who knew the buyers, had a following, contacts, and so on, but we now feel convinced that the value of those things can be greatly magnified—for our business, at least. We argue that, given the right material, a lack of experience is of little consequence, and for our purpose is more likely an advantage. If we can find a man who has brains, ambition, and personality, he can be trained in our methods more readily than one who has a lot to unlearn."[7]

Some of the larger concerns go even further in disregarding certain types of characteristics in initial selection of men. They are not selected for particular jobs or even for types of job. Rather they are selected for employment, usually in training programs, and selection for particular types of work is deferred until more is learned, through the training procedure, as to their interests and aptitudes. In training programs the assignments of trainees are changed regularly at predetermined intervals so that the mens' progress, abilities, inclinations, and interests can frequently be reviewed after orientation to different types of jobs. Then later, with this information at hand, they can be selected for permanent positions in some aspect of a company's activities. Under such a program, experience and aptitude characteristics, even certain personal characteristics and those of an environmental nature, can largely be disregarded as far as initial selection is concerned. They become important later when final selections for particular jobs are made. By that time, however, a company has a wealth of additional information which is helpful in the selection process. Initially, a company is concerned only with basic characteristics in regard to mental ability, health, personality traits, breadth of interests, and other such characteristics which are important whatever a man's ultimate position in the organization of a company may be.

Educational Characteristics

As might be expected, there is marked variation in the educational requirements established by different concerns as the basis of qualification for selling jobs. The essential difficulty of the selling task varies so greatly that men of very dissimilar educational training, both in degree and type, can be used in some sort of selling work. Routine selling of simple, nontechnical products to small dealers does not require a college education, perhaps not even a high school education,

[7] Frederick A. Williams, "Selection and Development of Salesmen," *Executives Service Bulletin*, Policyholders Service Bureau, Metropolitan Life Insurance Company, Vol. XVIII, No. 2 (February, 1940), p. 1.

if a person is self-taught and has accumulated knowledge and understanding through experience. On the other hand, sales of complicated products, either in composition or in use, to highly trained executives in responsible positions may well require college graduates, even graduates of technical colleges, if the products are to be sold effectively. It is interesting to note in this connection that of 232 concerns in a wide variety of fields 39.2 per cent require a high school education; 7.3 per cent require a technical school education; and 13 per cent require a college education. In addition, 17.2 per cent indicated a preference for college graduates. No special requirements as to educational level were established by 40.5 per cent of the concerns reporting.[8] There is ample evidence that the applicant with a college education is given preference, partly because of the knowledge and understanding acquired while in college, and partly because the acquirement of a college education provides at least circumstantial evidence that a person has other desirable characteristics.

Characteristics of Successful Salesmen

While new concerns may have to rely on deductive procedures or the experience of other concerns or individuals to determine the characteristics which their salesmen will need to be successful, there is another approach, and a most helpful one, for an established company. Any going concern with an established sales force has men of widely differing ability as indicated by their performance. It is a reasonable, therefore, to study not only what the more successful salesmen do to get orders, but also what characteristics they have which are helpful in performing selling tasks. To a certain extent, the procedures followed by salesmen are an expression of personal attributes and cannot effectively be followed by people with dissimilar attributes. Other procedures, if management becomes aware of them, can be followed by any salesman with good results. The problem here is to observe the company's salesmen in an attempt to discover those characteristics which contribute to their success in selling activities and to rate the characteristics in the order of their relative importance as a guide for selection.

The first step in this general procedure, one which will be considered in more detail later, is to develop a "yardstick" of performance. This is no mean task, for the volume of goods actually sold is not the only reasonable measure of performance. It is often a question of how well they are sold, whether they are subsequently effective in use for the purchaser, whether goodwill for the company is main-

[8] *Personnel Policies Affecting Salesmen*, p. 7.

tained, whether promotional activities which condition future sales are being performed satisfactorily, and a host of other considerations. When a measure of performance is selected and the men have been rated, the second step can be taken. It is to discover those factors which would have made prediction of future success possible at the time of initial selection. For instance, a company may have collected, over a period of years, information on an application blank on physical characteristics, background, experience, and training of applicants for sales jobs. As a simple illustration, information on height and weight may have been collected, on age of applicant, marital status, on work experience. These data on people who were selected for sales positions are useful to management because, through correlation procedures, their importance as factors to guide selection can be determined. In other words, it can be determined whether any of the data furnished by men at the time of employment would have differentiated between those who were later successful and those who were not, as measured by the yardstick of performance previously selected. *This is, of course, the essence of the problem.*

In one particular instance, a company made a comparative study of the records of 500 salesmen whose performance ranged from outright failure to outstanding success and correlated performance with information furnished on application blanks before they were hired.[9] This company discovered that salesmen without dependents sold 35 per cent below the average of all new salesmen, married men without children sold 4 per cent above the average, while married men with children sold 18 per cent above the average. Men who entered the company's employ at an age between 30 and 35 years were most successful, also men who had worked while in school and who had carried a substantial amount of life insurance. From the results of this study, new interview application forms were developed which included only those items which were found to be indicative of later success on the job.

The reader will recognize that some characteristics of individuals, for instance, emotional stability and self-reliance, are not quantitatively measurable. Thus they are not subject to correlation with measures of later performance on the job. While undoubtedly self-reliance is possessed by individuals in varying degrees, an attempted evaluation in precise quantitative terms of the relative amounts possessed by different individuals would have little to commend it. It is difficult enough to determine whether the attribute itself is noticeable in the men who have been oustandingly successful. This must be done by direct observation, preferably in the field, of both successful and un-

[9] George L. Todd, "65% of the Men We Hire Now Stick and Succeed," *loc. cit.*, p. 99.

successful salesmen; by specific case analyses to ferret out the reasons for success in some cases and failure in others; and by intensive clinical interviews with all newly employed salesmen.

Through the procedures mentioned previously, the specific characteristics needed for particular types of jobs may be isolated. They may differ markedly from the general characteristics so commonly suggested as those necessary for salesmen. For instance, the twelve characteristics most desired in salesmen by a company which manufactures and distributes products used in the construction and maintenance of schools and hospitals, industrial plants, office buildings, and commercial buildings, are: (1) capacity for day-after-day plugging; (2) money-minded, order-conscious; (3) capacity for social adjustment; (4) emotional adjustment—freedom from neurotic symptoms; (5) capacity for intelligent planning; (6) practical maintenance sense; (7) capable of accepting our philosophy of business, a sound builder; (8) singleness of purpose in life; (9) financial position; (10) physical vitality; (11) articulation; and (12) can the applicant be supervised? Certain factual data, such as age, ownership of durables, and marital status, may be indicative of the presence of these characteristics. They can be inferred from these factual data because of a high degree of correlation between these data and later performance on the job. Other characteristics are observable in interviews or can be inferred from the record of education and experience of the applicant. The presence of some characteristics may be determined by aptitude and intelligence tests. The nature of the problem thus becomes evident. *It is to select the best means for discovering the presence of desired characteristics.* This involves continuous experimentation with personal history items and their relationship to performance, with interviewing techniques and procedures, and with aptitude and intelligence tests.

At times a negative approach to the problem of determining characteristics is a helpful one. It is a question of determining, through a study of failures, what types of people to avoid during the process of selection. Logically, it is just as reasonable to determine the human characteristics responsible for failure as those responsible for success on the job. After long experience and careful analysis, a food company found that certain characteristics or conditions of previous employment or training were often associated with unsuccessful employment and either dismissal or resignation. For this company, their presence served as a warning against employment. The presence of many of them probably withheld employment even though other factors were favorable. They were as follows: (1) former salesmen of competitive organizations—particularly the leading competitors; (2) men on whom a doubtful credit report has been received; (3) men who have had more than five previous jobs; (4) men who have

left previous jobs because of layoff, force reduced, merger, business slump, job discontinued; (5) men whose wives or immediate families are not 100 per cent behind them in their desire for the job; (6) men who have domestic difficulties; (7) men about whom there is some question as to their physical fitness—men who have been ill several times for a month or more, in the last several years; (8) men whose salaries, in previous jobs, were more than 50 per cent higher than your beginning salary; (9) men who have heavy financial responsibilities to their families over ordinary living expenses, or who are in debt; (10) men who have gone to college more than three years, but did not graduate; and (11) men who have reformed whether in regard to financial matters or in habits such as drinking.[10]

RECRUITMENT OF SALES PERSONNEL

For most concerns, the recruitment of sales personnel is a continuing activity. Some turnover in the sales force is to be expected, and in periods of expansion a considerable increase in the sales force may be needed. Therefore, as the problem of recruitment in many concerns is ever present, definite procedures should be established for making contact with prospects for sales positions. Only by advance planning and sustained effort can the best sources of salesmen be discovered and utilized effectively.

Sources of Sales Personnel

The sources of sales personnel used by business concerns depends very largely upon the type and number of salesmen required. The source utilized must be well adapted to the need. For instance, there is little reason for visiting the colleges for purposes of recruitment, if the jobs available will not be attractive to college graduates. Nor would it be desirable to rely upon employment agencies for getting into contact with prospective salesmen of unusual ability or long experience. They are not likely to be listed with such agencies. The sources most generally employed to secure new salesmen are the following: the company itself; other companies—competitors, noncompetitors, customers; educational institutions—high schools, colleges; newspaper and trade paper advertising; company salesmen and sales supervisors; employment agencies and placement bureaus; direct applications for sales positions not induced by company action. Of these, the most prolific source is probably newspaper advertising, particularly for relatively low-grade selling jobs. The best prospects from the quality angle are usually secured through recommendations

[10] John Cameron Aspley (ed.), *The Sales Manager's Handbook* (5th ed.; Chicago and London: The Dartnell Corporation, 1948), p. 518.

of older salesmen, from other departments of the company itself, and from the colleges.

The Company Itself

Not infrequently, people in charge of recruitment find acceptable candidates for field selling in the home-office sales department and in other departments of the business enterprise. This is a prolific source which yields salesmen of more than average ability. While companies differ markedly in the extent of recruitment from within the company, it is not unusual to secure as much as 25 per cent of field sales personnel from this source. Its use may be premeditated and thus affect hiring practice. For instance, one large concern hires young men who are promising but too immature for sales positions for office jobs. It is hoped that they will become familiar with the company's policies and products, learn to accept responsibility well, and ultimately be able to handle a field sales job successfully. Therefore, both the home office and branch offices become a training and proving ground for prospective salesmen.

There are certain advantages to selection of prospective salesmen from within a company's organization. Such a practice heightens the morale of men working in the office and in the plant. Moreover, utilization of this source eliminates a great part of the time and effort needed to acquaint salesmen with the company and its products. Salesmen who graduate from the home office or the plant into selling activities have a knowledge of the company, its products and policies, which can only be obtained by other salesmen through a process of later indoctrination. Also, by hiring from within, management has more confidence in the men, for an opportunity has been afforded to study and appraise them for selling jobs.

Other departments in the business enterprise also furnish desirable prospects, particularly engineering and production. In a business which manufactures industrial equipment, such as machine tools, a technical knowledge of the product and its uses in various industrial processes is essential. Through long association with the production of such tools, the prospective salesman acquires a knowledge of their capabilities in use. If men from engineering and production departments likewise have the ability to sell, they may become very effective industrial salesmen. In large companies, especially, the adjustment process is always going on through which employees find those jobs for which they are best adapted by virtue of their innate abilities, temperament, training, and experience. Wise management facilitates, rather than hinders, this process. Thus people in charge of recruitment of salesmen should always be on the lookout for likely candidates in all organizational units of their companies.

Other Companies

If a company's policy is to employ only experienced salesmen, they must be secured either from competing concerns or from concerns handling other products. In either instance, the burden of training is partially shifted to other companies. However, there may be hidden costs in such a policy. It is likely that the best salesmen will be retained by the competing company through matching offers, and the less successful salesmen will be allowed to accept employment elsewhere. Then also, as one executive noted, they come to a concern with bad habits as well as good ones. Perhaps they are weak on the loyalty factor. At least, their willingness to shift from one company to another indicates that a strong loyalty has not developed.

It must be recognized, nevertheless, that there are legitimate reasons at times for a salesman shifting between competing companies. It can be argued that economic values are preserved thereby. Surely a salesman is better equipped to sell the products of a directly competing company than to sell entirely dissimilar products. Clashes in personality, poor assignments by way of products to be sold or territory to be covered, or other factors, such as location or living conditions, may prompt a salesman to leave a company and to join the sales force of one of its competitors. However, if the initiative is taken by the competing company, if it deliberately raids a competitor's sales force, antagonism and unhealthy rivalry is brought about which does not benefit the concerns involved or the industry of which they are a part. Many concerns have a definite policy against hiring the salesmen of competitors. They argue that it is destructive of mutual confidence and co-operation. Nevertheless, they are not loath to hire a man who has resigned from a competing concern, if investigation indicates that he is an acceptable prospect.

Noncompeting companies and customers are frequently the source of good prospects for selling jobs. While prospects from these sources do not have a thorough knowledge of the company's products, they may possess a marked ability to sell. Much of the sales technique learned on another job may be transferable to the sale of other products. Knowledge of other products can be acquired, but personal traits which characterize a successful salesman are innate or the result of long training. Even though prospects from this source may not have been selling the same type of product, they may have been calling upon the same class of customers, even identical customers. Useful contacts may have been established which will come in handy in the later sale of the company's products.

It is also perfectly reasonable for salesmen to wish to improve their standing in the community and their earning power by shifting positions. Transfer to a selling position with another concern may provide

greater opportunity for advancement. A "grading-up" process, as their ability and experience is enhanced, is a perfectly natural phenomenon. Therefore, transfer between noncompeting concerns is to be expected, and should often be encouraged.

Educational Institutions

For approximately sixty years, representatives of business concerns have been visiting the colleges for the purpose of recruiting senior students who will soon graduate. Some concerns get a large proportion of their potential salesmen from this one source. Whether this source is used by a concern depends, as noted previously, on the nature of its selling task, its demands for persons of superior training and ability, and its willingness to hire inexperienced men. Those companies which prefer, as a matter of policy, to recruit inexperienced men who are still pliable and possess the ability to learn quickly, and which have a selling job that demands both superior intelligence and training are likely to look to the colleges for recruits. The very fact that a man has sought a college education and has carried a course of study to successful completion evidences much by way of ability and other character traits. He is likely to be adaptable and easily trained, for he has become accustomed to training procedures and is in the habit of study. Self-confidence, ease of manner, and the ability to meet people well are likely personal characteristics. On the other hand, most college men have not demonstrated their ability to sell merchandise, and many of them are unwilling to engage in field selling. They often dislike to contemplate going "on the road" and prefer positions which allow them to work in or around a particular location.

Most college men are not well adapted to routine selling of nondistinctive commodities. Positions of this character do not require either the ability or the training usually possessed by college graduates. The work is neither sufficiently demanding, in terms of problem solution, to continue to interest people of superior ability; nor are the opportunities sufficiently great for either monetary or nonmonetary compensation. In contrast, some sales positions can utilize *all* the innate abilities and educational training, both of a cultural and professional sort, which a person has or can secure. These are the positions for which college men are likely to be recruited. If college men are placed in routine selling jobs, these jobs are thought of as training jobs and as stepping stones to supervisory positions and positions of responsibility in the home office or in branch offices.

In an analysis of college graduates in industry, the National Industrial Conference Board, Inc. reported on the recruitment, selection, and training practices of 142 concerns.[11] Of the various positions for

[11] National Industrial Conference Board, Inc., *College Graduates in Industry* (Studies in Personnel Policy, No. 89) (New York, 1948).

which men were recruited, 18 per cent were in the field of sales. One of the questions considered in this study was whether recruits from the colleges possess the necessary stability to stay with the concerns which initially hire them. It has been a common criticism that college graduates do not know what they want by way of employment and therefore shift around frequently between jobs during the first few years after graduation. The National Industrial Conference Board Study indicates that this criticism is largely unjustified. Their experience has been as follows: 38 per cent of the companies included retained 75 to 100 per cent, 33 per cent retained 50 to 74 per cent, 13 per cent retained 25 to 49 per cent, and 3 per cent retained 0 to 24 per cent of the number originally employed. The remaining 13 per cent of the companies did not report.[12] When it is considered that many of these men were employed twenty to fifty years ago, the data indicate a reasonably low turnover rate. One authority stated that "Improved selection and training are reducing this turnover appreciably. Many large concerns can boast that almost all of their executives have been in their employ since graduation from college.[13] Opportunity for advancement must be provided if able and energetic men are to be held over long periods. If these responsibilities are met, most college men are likely to stay in their original employment.

Many of the larger colleges and universities have made the problems of recruitment relatively easy. They have established placement bureaus, under the direction of particularly competent faculty members, which business concerns can contact. Placement bureaus and faculty members find printed information about job opportunities very useful. Such information can be passed on to likely prospects before a company representative arrives. The broad objective behind these booklets is to sell prospects on working with the company which issues them. They help to prepare the prospect for interviews and may help to answer some holdover questions after the company representative has departed. They contain various types of information, but usually center on company history, on company products and how they are manufactured, and on job opportunities. By way of illustration, the Burroughs Adding Machine Company has prepared three items, (1) (company trade-mark) *a future for you . . . in an expanding industry*, (2) *Sales Careers with Burroughs, Qualifications for College Men*, and (3) *An Idea Becomes an Industry*.[14] The nature of these items is indicated by their titles.

The theory behind publications of this character is that the prospective employee should be given the materials necessary to judge the concerns with which he may become affiliated. The quality of a company's products, the attitude of users toward them, the attitude of

[12] *Ibid.*, p. 6.
[13] *Ibid.*, p. 6.
[14] Burroughs Adding Machine Company, Detroit, Michigan.

management toward research and product development, personnel and financial policies, and, above all, ability to increase earning power over a period of years are of great significance to the prospective employee. It is well to keep in mind that selection is a two-way street. A company selects a man for employment, but the man likewise selects the company for which he will work and should be aided in doing so.

Advertising

Companies use advertising for recruitment in a number of dissimilar ways. Classified advertisements are still used widely to recruit relatively low-grade salesmen. There is usually a large measure of response but not from the right sort of prospects. Somewhat better results in quality are likely to be achieved from attention to the "situations wanted" columns. At least, in these cases individuals who wish employment have taken the initiative. This speaks well for their resourcefulness and evidences a strong motivation for employment. Nevertheless, men with good prospects who are working for other concerns and younger men who are emerging from educational institutions are not contacted by these means. It can be affirmed, however, that these procedures do bring a company into contact quickly and at low cost with a large number of prospects and, if it is well organized to screen them effectively, some good men are likely to be discovered. It is a quantity rather than a quality approach with emphasis on subsequent screening, rather than upon making the right contacts initially.

More selectivity in response is achieved through the use of display advertisements in newspapers which state definitely the type of men sought and the qualifications which they must possess by way of age, marital status, training, and experience, if they are to be given consideration. Minimum salary or a range in salary is often mentioned. Response is limited, but the quality of the applicants is considerably higher and the process of interviewing and final selection less time-consuming and costly than from the use of less "qualified" advertisements. Advertisements of this character are more likely to be used to secure prospects for single positions such as a sales manager, a foreign representative, or a man to sell in a particular territory than for the recruitment of many salesmen. Advertisements in the Sunday editions are more likely to secure a large response than those in weekday editions.

Direct mail advertising to selected groups, magazine display advertisements, small inserts in business papers and in general advertisements are not uncommon but are used only as ancillary means for securing sales personnel. When business is very active and good prospects are difficult to uncover, all available means may be used to make contact with men who may become successful salesmen.

Company Salesmen and Sales Supervisors

For many companies, this is the best single source of sales personnel. It is the most natural source, particularly for small concerns which need additions to their sales forces infrequently and at irregular intervals. Senior salesmen are instructed to be on the lookout for likely prospects. They are in a good position to come into contact with them. Contacts with salesmen who represent other companies are frequent. Some of these salesmen will be seeking new connections. Furthermore, most salesmen, by reason of temperament, make many contacts in fraternal organizations, athletic groups, service clubs, and other social and service organizations. Any one of these may be productive of leads through which prospective salesmen are uncovered.

At times, contests are organized for the express purpose of inducing salesmen to aid in recruiting. Nonmonetary compensation is provided. Official recognition of effective performance in recruiting work may be given in a company's publications. Salesmen may be assured by company executives that aid given in recruiting will be noted on individual personnel records and taken into considerations in matters of promotion and changes in salary level. With such inducements, salesmen, sales supervisors, and branch managers are likely to become productive in bringing acceptable prospects to the notice of people in charge of recruitment and selection.

The most frequently stated objection to the use of this source for recruitment is that salesmen are likely to recommend personal friends and relatives who do not have the necessary qualifications for selling work. Unbiased judgment cannot be expected in a situation such as this. In relation to friends, however, it can be argued that a man's friends are likely to have some of the same personal characteristics and the same interests as the man himself. If this is the fact of the matter, a salesman's friends may well be good prospects for sales positions. In any event, the later process of selection, if effective, should screen out those individuals who do not have the characteristics needed for selling work.

Miscellaneous Sources

Particularly in times of economic depression, business concerns get many unsolicited applications for all types of jobs. They come through correspondence and through the intercession of people who are known to a company's executives. Chambers of commerce often do something by way of employment activity and thus may be the source of prospects for selling positions. Employment agencies are used at times when a large number of salesmen are needed for short periods, for instance, for house-to-house selling. Employment agen-

cies are much better mediums for hiring factory workers, clerical workers, and servants than for hiring salesmen.

Analyses of costs in recruitment and of the subsequent performance of the people hired will guide sales executives toward those sources which are most productive of successful salesmen. Adequate records must be kept, followed by periodic analyses, if management is to have the necessary guidance. As stated previously, the source utilized depends very largely upon the type of salesmen required by a company.

REVIEW AND DISCUSSION QUESTIONS

1. Characterize the over-all problem involved in the recruitment and selection of sales and service personnel.
2. What conditions often prompt greater attention to recruitment and selection procedures?
3. The work of recruitment and selection for large concerns with widespread operations may be centralized in the home office or dispersed among field offices. What advantages and disadvantages do you discern in each location? What compromise may be worked out in an effort to secure the greatest net advantage?
4. Suggest procedures for the work of job analysis. Could this work safely by left to salesmen or field managers?
5. "A job analysis together with a difficulty analysis automatically discloses the qualifications of salesmen with respect to personal attributes and experience necessary to perform the specific duties and surmount the specific difficulties of the sales job to which they apply." Comment.
6. On what bases would you criticize the policy generally followed by some companies of hiring only experienced salesmen, preferably those who have sold similar or directly competing products? Can the policy be defended in certain instances?
7. Is it necessary for business concerns to follow a wholly deductive procedure for determining the human attributes, training and experience, and environmental conditions most needed for a particular sales job? What procedure would you suggest for the development of a personal history record?
8. In your opinion, is the "negative" approach to determining the characteristics needed in salesmen a helpful one? Is it essentially different from the usual positive approach?
9. What are the usual sources of sales personnel? Evaluate them under assumed conditions in regard to type of product, size of company, etc.
10. Is a company likely to experience difficulties through asking its own personnel to participate in the recruitment process?
11. Evaluate the colleges and universities as a source of sales personnel? Are college graduates likely to stay with the company that initially hires them?

12. It has been asserted that differing combinations of personal attributes or other characteristics may produce results of equal magnitude in selling work; that a combination of characteristics may, for some reason, be greater than the sum total of its parts; and that characteristics are substitutable in the sense that deficiencies in some of them may be compensated for by unusual strength in others. If there is some validity to these assertions, what influence should it have on the procedure of selection?

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Chapter XIX

RECRUITMENT AND SELECTION OF SALES PERSONNEL (*Continued*)

DETERMINATION OF APPLICANTS' CHARACTERISTICS

THE FIRST three steps in the employment procedure—namely, job analysis, determination of the human characteristics necessary for the sales job, and recruitment of sales personnel—have now been discussed at some length. The fourth and final step is selection per se, or the determination of whether applicants for sales positions actually possess the characteristics which are thought necessary for selling work and to what degree.

The procedure followed in the selection process may be either of short or long duration, comprehensive or sketchy. Many small concerns do little more than interview men before selections are made. They depend entirely upon subjective evaluation of a man's characteristics in one or more interviews. Other concerns go through an elaborate process, including interviews by a number of executives, investigation of past experience, contact either by letter or in person with references, and psychological tests before the successful applicants are finally offered positions. By so doing, these concerns get away from purely subjective evaluations and rely more on objective evidence.

In general, it may be said that, where obtainable, objective evidence should be secured and relied upon more heavily than the conclusions reached by observation during interviews. For instance, if self-reliance is a desired characteristic, evidence as to actual accomplishment, perhaps under difficult conditions in the past, is a more reliable guide than the reactions of an interviewer based solely upon observation. Some characteristics are directly observable through interviews, others are inferable from the past experience of the applicant, while the presence of still others may only be determinable through testing procedure. Executives who have studied this general problem of selection recognize that neither interviews, information on past experience, nor tests provide a complete solution to the selection problem. A combination of these three approaches has, for many concerns, provided a

solution whereby more able men are selected for selling positions and retained in those positions over a considerable period of time.

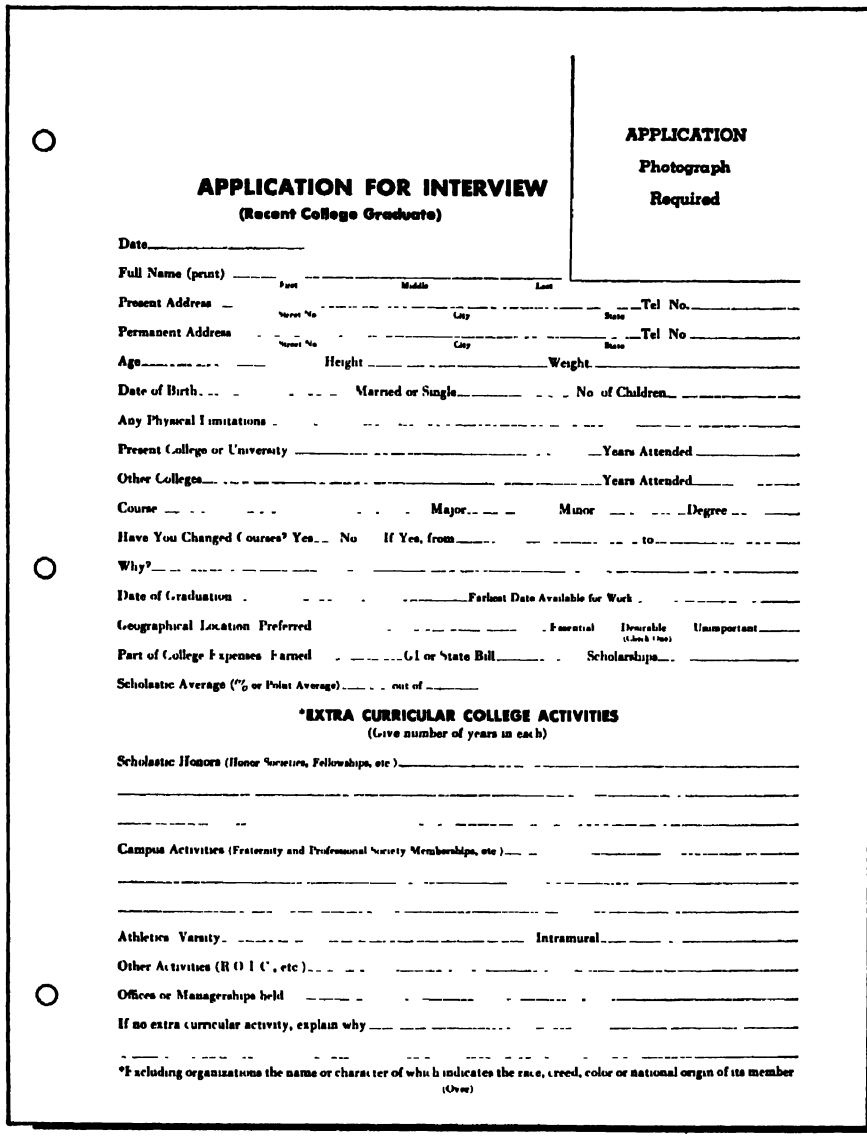
In the selection process, management is likely to use all or some combination of the following items: (1) the application for interview blank; (2) preliminary interviews; (3) application blanks or personal history records; (4) references; (5) interviews by executives; (6) psychological tests or aptitude examinations; (7) physical examinations. It should not be inferred that this order is always followed. Different steps in the procedural pattern may be taken simultaneously. The application blank may be used as indicated, in order to secure necessary information from the prospect before the preliminary interview or only in connection with those people who survive the preliminary screening process. Those concerns which have great confidence in psychological tests as instruments of selection are likely to use them early in the selection process. Other concerns use them primarily as means of verification or as the source of further evidence in doubtful cases. Under such circumstances, they are likely to be used late in the selection process. When preliminary selection is at the colleges or elsewhere in the field and final selection is at the home office, formal tests are often deferred and given only to those men who are likely to be subsequently hired. Results may be used primarily to guide management in the assignment of men to particular types of jobs, rather than as a guide to selection for employment.

The various means which may be used in the selection process can only be justified if each contributes something toward more effective selection. Each must play a definite role, if only a minor one. This poses the central problem involved, which is to discover what means will be most reliable to determine the presence of certain characteristics or to reveal experience and training. For example, the question may arise as to whether the characteristic of persistence should be determined through interviews or through references or personal history records. Obviously, an interviewer would not ask a prospect if he was persistent. Furthermore, it is doubtful whether anything he would say in an interview would reveal that fact. If this conclusion is valid, use of references and personal history items is indicated to reveal the presence or absence of the characteristic. In reference to each characteristic on which management wishes information, it is a question of the selection of the appropriate means to attain a particular purpose. With this in mind, each of the items previously listed will be discussed in some detail.

The Application for Interview Blank

It is desirable to have some information about applicants for sales positions even before a formal interview is conducted. At times there

FIGURE 14



APPLICATION
Photograph
Required

APPLICATION FOR INTERVIEW
(Recent College Graduate)

Date_____

Full Name (print) _____ (First) _____ (Middle) _____ (Last)

Present Address _____ (Street No.) _____ (City) _____ (State) _____ Tel No. _____

Permanent Address _____ (Street No.) _____ (City) _____ (State) _____ Tel No _____

Age_____ Height _____ Weight_____

Date of Birth_____ Married or Single_____ No of Children_____

Any Physical Limitations _____

Present College or University _____ Years Attended _____

Other Colleges_____ Years Attended_____

Course _____ Major_____ Minor _____ Degree _____

Have You Changed Courses? Yes__ No If Yes, from_____ to_____

Why?_____

Date of Graduation _____ Earliest Date Available for Work _____

Geographical Location Preferred _____ Essential Desirable (Check One) Unimportant_____

Part of College Expenses Earned _____ GI or State Bill_____ Scholarship_____

Scholastic Average (% or Point Average)_____ out of _____

***EXTRA CURRICULAR COLLEGE ACTIVITIES**
(Give number of years in each)

Scholastic Honors (Honor Societies, Fellowships, etc.)_____

Campus Activities (Fraternity and Professional Society Memberships, etc.)_____

Athletics Varsity_____ Intramural_____

Other Activities (R O T C, etc.)_____

Offices or Managerships held _____

If no extra curricular activity, explain why _____

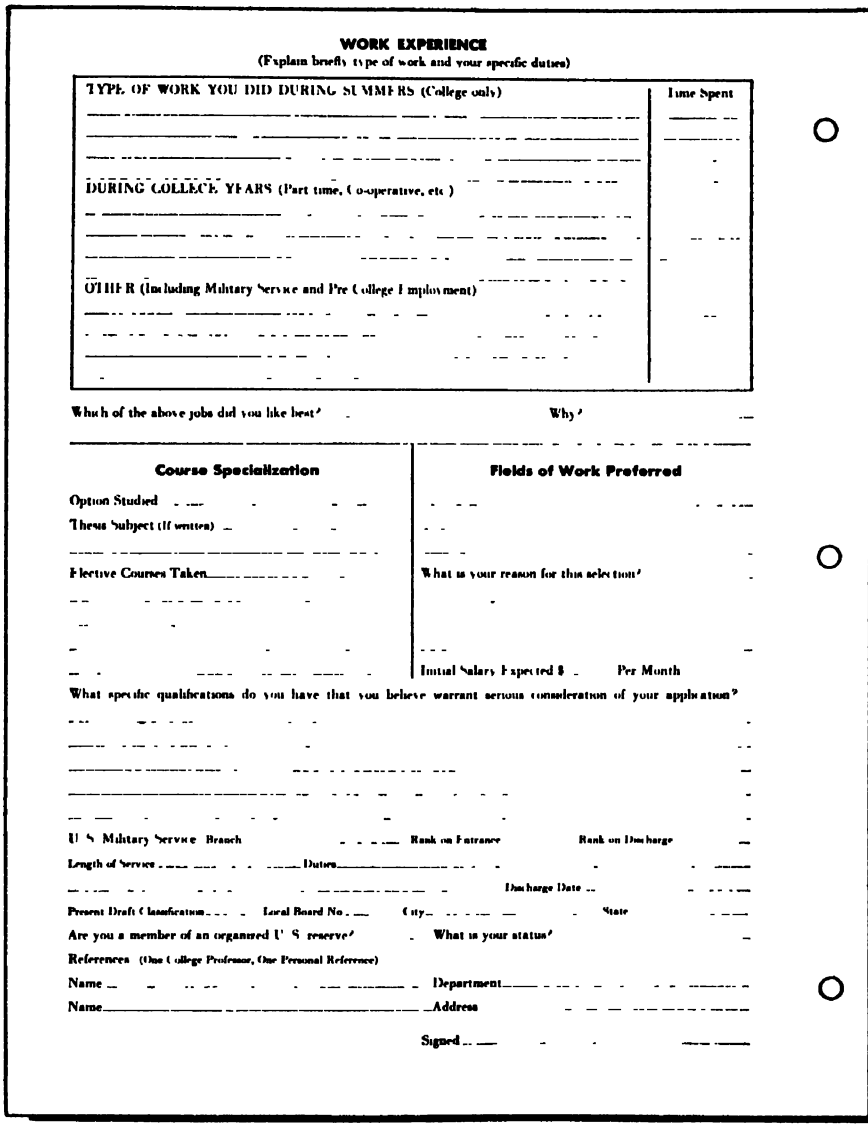
*Excluding organizations the name or character of which indicates the race, creed, color or national origin of its member

(Over)

(*Front*)

is preliminary screening by someone in the personnel department, and, if the applicant is not obviously unfit by a lack of training, experience, or personal characteristics, he is handed an application-for-interview blank to be filled out prior to a more formal interview. It is not unusual, in recruiting college men, to have the applicants fill out such blanks before the arrival of company representatives. These blanks are designed to furnish information on the name of the appli-

FIGURE 14—*Continued*



WORK EXPERIENCE
(Explain briefly type of work and your specific duties)

TYPE OF WORK YOU DID DURING SUMMERS (College only)	Time Spent
DURING COLLEGE YEARS (Part time, Co-operative, etc.)	
OTHER (Including Military Service and Pre College Employment)	

Which of the above jobs did you like best? _____ Why? _____

Course Specialization	Fields of Work Preferred
Option Studied _____	_____
Thesis Subject (If written) _____	_____
_____	_____
Elective Courses Taken _____	What is your reason for this selection? _____
_____	_____
_____	_____
_____	_____
_____	Initial Salary Expected $ _____ Per Month

What specific qualifications do you have that you believe warrant serious consideration of your application?

_____

_____

_____

_____

U. S. Military Service Branch _____ Rank on Entrance _____ Rank on Discharge _____

Length of Service _____ Dates _____

_____ Discharge Date _____

Present Draft Classification _____ Local Board No. _____ City _____ State _____

Are you a member of an organized U. S. reserve? _____ What is your status? _____

References (One College Professor, One Personal Reference)

Name _____ Department _____

Name _____ Address _____

Signed _____

(Back)

cant, academic record, and physical characteristics. Information is also called for on extracurricular activities, work experience, subject specialization, and the field of work preferred. (See Fig. 14.) A photograph is often required except where prohibited by law. The interview blank, in a sense, introduces the applicant to the interviewer. With this information at hand for ready reference just prior to the interview, the company representative knows what sort of an individ-

ual to expect and can have initial questions in mind which may put the applicant at ease.

At times the interview blank, the application blank, and the personal history record are combined. While the latter two can be combined, it is considered better policy to have the interview blank a relatively simple form which will provide a minimum of essential information. If the applicant is to be considered for employment after the first interview, he can then be requested to fill out other forms in which detailed information is given.

The Interview

In the past, a single interview with the prospective salesman has often been the sole procedural basis of selection. Many concerns still go little further by way of procedure, although leaders in the field of personnel management think that sole reliance on subjective evaluation of a prospect in a single interview does not produce good results. Too frequently, interviewers have been biased in favor of their own personal attributes and have selected men in their own likenesses. While the interview holds an important position in selection procedure, complete reliance should not be placed upon it.

Interview Objectives. The chief objective of the interview as a procedural step should be to obtain that type of information which cannot be secured by more objective means. Some characteristics can only be determined by observation. They are neither quantitatively measurable nor directly inferable from personal history items. They are largely concerned with the impression which the prospect makes on other people when he comes into contact with them. Physical appearance, mental alertness, facility in speaking, voice quality, courtesy and tactfulness, personality, and the ability to follow the remarks of the interviewer closely are characteristics in point. Whether a man has a sense of humor can often be discerned also. Some impression can be secured of a man's willingness to accept responsibility, his self-confidence, and his initiative. Most basic character traits such as honesty, stability, resourcefulness, self-reliance, and persistence, or the drive to carry through assignments, cannot be determined with complete assurance through the interview technique. They must be discovered through references and through resort to personal history items; for instance, to academic achievements. They are largely inferable rather than observable characteristics.

A distinction should probably be made between the objectives of the usual short interview with prospects for sales positions and the longer, more detailed interview. As stated previously, the most important purpose of the interview is to discern and rate observable characteristics, rather than to discover what a man knows or has ac-

complished in the past or to inform the applicant about the company, its products, and policies. Nevertheless, the interview technique is often used for these other purposes likewise, partly as a framework in which to appraise the applicant on the personal attributes previously mentioned. Those who conduct long, detailed interviews believe that delving into an applicant's background and experience may bring forth some factual information which would not be divulged on a personal history blank, may secure some insight into the applicant's motivations or habits of thinking, and may show his ability to furnish factual information clearly and succinctly in conversation. Perhaps an over-all impression of the applicant can be gained through an extended interview better than in any other way. Nevertheless, for interviews in which time is an important limiting factor, it is a good rule to refrain from cluttering the interview with an exchange of purely factual information which can be secured as well from personal history records and from printed material on the company's activities and policies. Often it is possible, particularly in college recruiting, to have a company representative lecture on company history, organization, products, and policies before an assembly of all applicants. If such a procedure is followed, questions which many applicants might ask are anticipated. Interviews are thus substantially shortened and can proceed according to predetermined plans.

Planned Interviews. Interviews, like other activities, yield themselves to effective planning and procedure. Although interviewing may be an art as well as a science, a predetermined pattern of action is desirable—and particularly so when a number of people participate in the interviewing work. If comparisons of applicants' qualifications as judged by different people are to be made, it is obviously necessary that there be some uniformity in procedure. To attain this objective, a certain measure of standardization in interviews has been attempted through the preparation of interview forms and rating charts. In Figure 15, a suggested outline for interviewing salesmen is presented. This furnishes an excellent example of an outline for a detailed interview, for not only is the order in which topics should be discussed indicated, but the material in parentheses suggests the personal characteristics which the interviewer should be attempting to discover in the applicant. While some interviewers prefer to be guided by the conditions of the moment rather than to follow prescribed procedures, their value in interviewing is lessened thereby. If many people are conducting interviews for essentially like positions, substantial adherence to a general pattern of procedure seems essential. This does not preclude some flexibility in conducting an interview, but the general structure or content of the interviews should be alike.

It is desirable to have a form on which the interviewer can record his impressions of the applicant immediately after the interview is

FIGURE 15

A SUGGESTED OUTLINE FOR INTERVIEWING SALESMEN—TREMCO MANUFACTURING COMPANY

WORK HISTORY (*Begin with his last job, and work back to the school years*)

ITEMS TO CHECK ABOUT HIS HISTORY:

Any jobs related to Tremco selling? Any mechanical? Any analytical? Call on building maintenance or construction men? How long on each job? (Stability) Any creative selling? Reasons for leaving each job. (Friction, Dismissals, Good judgment?) Which job liked best. (Interest and enthusiasm about jobs.) Any strong loyalty or attachment to any employer? Approximate earnings on each job. Was last job a step upward? Is he ambitious? (Is he on the way up or down? Past his peak?) Many wide shifts in type of work? Any shift in major life ambition? Has he tried any wild impractical projects?

EDUCATIONAL HISTORY (*Lead into this from his first job held*)

COLLEGE ATTENDED:

Major subject studied. Which liked best? Which disliked most? Any difficulties with any subjects? In general, preference for sciences, Mathematics versus English, social studies, etc. (Interest in practical or theoretical and artistic.) Extracurricular activities. Sports. Dramatics. Fraternity. Social. Offices held. In general, were you about an average student, little below, or above average? Did you work your way through college?

HIGH SCHOOL (*Same line of questions*):

Was this in your home town? Living with parents then? (*This makes natural bridge to topic of family background.*)

FAMILY BACKGROUND

Are your parents still living in ? Do you have brothers and sisters? (*Get order of birth. Differences in age of those next to him*) Father's occupation? Mother's occupation if any? What sort of a person was your father? How would you describe him? (*Note affection or lack of it in way he tells about him*) What sort of person was your mother? Were you closer to your mother or to your father? (Or neither?) Occupations of brothers and sisters who are working? How successful is each? (*Look for competition for our applicant*) To which one were you closest? (Whom did he love or hate? With whom did he compete? Was it unfriendly or unfair competition?) (*Act interested in his family so that he will "loosen up"*) (Did he have a place of special importance in the family circle as, favorite or black-sheep?) Was your family a close group, or just a lot of individuals living together? Was there much conflict? Did F. and M. get along all right? (*Look for signs of extreme dependence on family, or strong resentments and conflicts*) Were you closer to your father and brothers, or to the women of the family? In general, do you prefer to deal with men or women?

WORK, MONEY, AND DISCIPLINE IN THE HOME

Were your parents pretty strict about discipline, or easygoing? (*Best if discipline is firm but fair and dependable. Not pampered.*) Was your home run on schedule and with some regularity, or easygoing? Did you have some regular chores or jobs around the home, as a boy? (*Was he taught work habits and work attitudes?*) Were you held responsible for these jobs? Any jobs outside of the home—as, paper route, lawns, help at a store. (Was he independent of family, on his own, get his own jobs?) How did you get your spending money? On an allowance? Or paid for jobs? Did you have a savings account as a boy? (Save for bicycle or something? Learn value of dollar.) Was he encouraged to accu-

FIGURE 15—*Continued*

mulate?) Was money stressed a lot in your home? Or was it in the background? Was there a family budget? Was money given to you freely? Did you have life insurance as a boy?

PRESENT DOMESTIC AND ECONOMIC SITUATION

Married? Children? Any other dependents or relatives living with you? Ages, sex, schooling of children. (*Note enthusiasm or lack of it in talking about family.*) Wife working? Any other source of income? What is wife's attitude toward Tremco proposition? (Are her ideas important to him? Is he too dependent on her?) (Any sign of friction? Is wife a positive force in his life?) Own your home, or rent? Mortgage? Any other large debts? (Any financial pressure?) Have current bills at stores? (Does he have credit?) Life insurance? Very heavy loans against it? (Is there cushion here?) Savings account now? Any reserve? Could you finance yourself for 6 weeks or so while getting started? (Will living standard need to be adjusted?) What is your principal need for money at present? Or is it a secondary matter? (Is money related to incidental or primary life aims?) What are your principal hobbies or interests? (Is his life centered around the trivial and immediate—as sports, good times, getting a job or around getting ahead, building future?) Do you belong to many clubs? (*Not too many scattered interests is better.*) (Does he appear to be emotionally upset at present for any reason?) Is your health entirely satisfactory? You have a home, family, fair income, etc., now; what else do you want? What are you working toward?

INTENSIVE STUDY OF 1 OR 2 RECENT JOBS, PREFERABLY RELATED TO TREMCO JOB

Just what type of product were you handling for company? (Does he know his line?) Describe a typical day's work on that job. Just what did you do? How did you find your prospects? (Did he comb?) About how many calls a day? How long a day did you have to put in to make that many calls? (Work regular hours? Early and late?) What type sales approach did you use? ("Canned" talk, or plan each approach, or trust to luck.) How did you handle objections? Zone his territory? Plan your day's work? Was it written out? How heavy were expenses? (Can he manage budget?) Keep any personal record system? (Of customers, orders? Systematic?) Have you any testimonials or records of your sales or earnings? (Was story told enthusiastically or matter-of-fact manner?) (Did he stress money earned or sales, rather than contacts, number of friends, quality of products, etc.?)

REACTION TO THE TREMCO PROPOSITION

What is your general reaction to our proposition? What appeals to you particularly about it? (Making money. Quality product and company. Advancement. Training program. Security.) Do you have any questions you want to ask about our proposition? What do you think is likely to be your chief difficulty or handicap with Tremco? (Is his thinking realistic, hard-headed, planful, sound, or is it wishful, emotional, overenthusiastic, weak, confused?)

NOTICE ALSO

Physical appearance. (Tall, vigorous, not too artistic.) Vitality and energy output. Businesslike in the interview? Articulation. Well-organized and clear speech. Any obnoxious manners. (Egotistic, indecisive, self-critical, and apologetic.)

FIGURE 16

RATING CHART FOR TREMCO SALESMEN

1 CAPACITY FOR DAY-AFTER DAY PLUGGING	Excell	Good	Average	Poor	Very Poor
2 MONEY-MINDED, ORDER-CONSCIOUS	Excell	Good	Average	Poor	Very Poor
3 CAPACITY FOR SOCIAL ADJUSTMENT	Excell	Good	Average	Poor	Very Poor
4 EMOTIONAL ADJUSTMENT -- FREEDOM FROM NEUROTIC SYMPTOMS	Excell	Good	Average	Poor	Very Poor
5 CAPACITY FOR INTELLIGENT PLANNING	Excell	Good	Average	Poor	Very Poor
6 PRACTICAL MAINTENANCE SENSE	Excell	Good	Average	Poor	Very Poor
7 CAPABLE OF ACCEPTING OUR PHILOSOPHY OF BUSINESS A SOUND BUILDER	Excell	Good	Average	Poor	Very Poor
8 SINGLENESS OF PURPOSE IN LIFE	Excell	Good	Average	Poor	Very Poor
9 FINANCIAL POSITION	Excell	Good	Average	Poor	Very Poor
10 PHYSICAL VITALITY	Excell	Good	Average	Poor	Very Poor
11 ARTICULATION	Excell	Good	Average	Poor	Very Poor
12 CAN THE APPLICANT BE SUPERVISED?	Excell	Good	Average	Poor	Very Poor
(Use Space Under Headings For Notes)					

terminated (see Fig. 16). On many interview blanks, there is a section on which the reactions of the interviewer can be recorded. At times a separate blank is provided which may be called a "rating chart" or a "result-of-interview blank." There are a number of advantages connected with the use of these blanks. The interviewer is more likely to keep those characteristics on which the applicant is to be rated in mind while the interview is taking place. Unless this rating is done immediately after the interview, it is largely ineffective because only general impressions of a particular applicant are retained by the interviewer if he has contacted many applicants during a limited period of time. In college recruiting, oftentimes the interviewer requests faculty members to rate the applicant on the same form. A comparison of the two ratings either results in useful verification or leads to further investigation if there is marked divergence between the two.

Multiple Interviews. It is now generally considered inadvisable to make decisions for employment or rejection on the basis of a single interview. In a second interview with the same prospect, an inter-

viewer may alter a previous judgment. There may be less tenseness in a second interview when both parties know better just what to expect by way of personality and approach. Particularly for sales positions which require a high order of natural ability and training, it is wise to bring the candidates who have survived a preliminary screening to the home office or a branch office, where they will be interviewed by a number of executives, each of whom will make entirely independent judgments. While there is often substantial unanimity on the top men in a group of applicants, as well as on poorer prospects, there may be considerable deviation on men in the in-between group. Conferences, followed perhaps by still further interviews, will then be necessary before final decisions are made.

The interviewing problem is simplified when interviews are conducted to secure men for *company* employment rather than for *specific positions* within the company—for instance, for sales positions. Large concerns, which usually have many positions available in all parts of the business enterprise, often maintain training programs during which the trainee is aided in finding the type of job which most nearly fits his interests and aptitudes. Under these circumstances, the initial interview is used only to determine whether the prospect would become a successful employee *in some capacity*, and the interviewer is thus relieved of considerable responsibility. Nevertheless, in this initial interview, a weeding-out function is performed. Whether it can be accomplished successfully in a single short interview is doubtful, particularly if the interview is not supplemented by personal history data. There is too much probability that men who, given the opportunity, would become very successful employees would be excluded from further consideration.

The Conduct of the Interview. There is undoubtedly a marked dissimilarity both in the conduct of interviews by company representatives and in the environmental atmosphere in which interviews take place. Company representatives, equally successful in interviewing, may use entirely different approaches to the prospect. Still, some general principles, worthy of discussion, have been evolved for the conduct of interviews.[1]

First, it is well to note that prospects emerge from interviews with widely differing impressions depending upon many factors but, most importantly, the attitude of the interviewer. Some interviews have been unpleasant ordeals, in the nature of trials without jury. Or, in contrast, the prospect may feel that he has had an interesting and profitable experience no matter whether the decision reached in his case is affirmative or negative. Company representatives should realize

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[1] See Paul W. Boynton, *Selecting the New Employee* (New York: Harper & Bros., 1949), chap. vii.

that there is a public relations aspect to interviewing, and that it is therefore unwise to affront and antagonize the prospect.

Getting a job in normal times is serious business. Many prospects will be nervous and ill-prepared temperamentally to handle themselves well. In some manner they must be placed at ease if they are to respond effectively. This suggests that the first thing to do is to place the interview on the proper footing of friendly, casual exchange of ideas. Offering the prospect a cigarette is usually helpful. If he needs a little time to adjust himself, comments about surroundings or some unusual event of general interest may ease the situation. Nevertheless, the interview is a business affair, and it should proceed along definite channels through which information is given and secured without undue delay.

It is important that the physical conditions surrounding the interview be acceptable. The prospect should not be placed in a chair which is at substantially lower level than the one occupied by the interviewer. He should not be placed facing the light. Interviews should always be private and, if possible, uninterrupted. While these rules may seem trivial, they are, in fact, important, since interviews are difficult enough without encumbering them with physical handicaps.

Qualifications of the Interviewer. Many of the qualifications needed by the interviewer are suggested in the foregoing discussion. There is nothing more important than a broad, sympathetic understanding of the problems of the applicants and a sensitiveness to their reactions during the interview. Only a feeling that there is such an understanding will put the applicant at ease and bring out his best qualities. The interviewer, to be successful, must be a person adept at observation. A skillful interviewer will begin to size up an applicant the moment he appears. This evaluation is almost intuitive to people well adapted to interviewing, and it becomes habitual in even greater measure as experience in interviewing work lengthens. Alertness is required, and the ability to see and correctly appraise the significance of chance comments or actions of which the applicant may not even be aware. Some people are trusted by others almost instinctively. Such people, if they are likewise adept in observation, will probably be successful in interviewing.

The Application Blank or Personal History Record

Apart from the interview, the most commonly used instrument for the selection of salesmen is the application blank. It appears in two general forms: first, the application for interview blank which was previously discussed; and, second, the application blank, as such, through which the prospective employer secures detailed information about the prospect. If, after a preliminary interview, both the company and the prospect are definitely interested, formal application can

FIGURE 17

Burroughs

APPLICATION FOR SELLING OR OFFICE POSITION

Please give information on each item listed below. If any item does not apply to you, write "No" or "None" after it. Complete with pen and ink in your own handwriting, do not print nor use typewriter. This information is needed to determine your qualifications for a position and will be kept in confidence.

Date of this application_____ to Burroughs office at_____ (City and State)

1. Full Name_____
2. Address_____ (Number and Street) (City and State) (Length of Time)
3. Previous Address_____ (Number and Street) (City and State) (Length of Time)
4. Telephone Number_____ 5. Social Security Number_____
6. Age_____ 7. Date of Birth_____ 8. Height____Ft ____In 9 Weight____Lbs.
10. Single ☐ Engaged ☐ Married ☐ Widowed ☐ Divorced ☐ Separated ☐
11. Name of Spouse (or Parent, if not married)_____
12. Her (or his) Address_____
13. Number of Dependents: Children____Ages_____Adults____ (Describe)
14. Occupation of Father or Husband_____ (If not living, state what occupation was) Of Brothers_____
15. How long a resident of this city?_____
16. Where do you and your family prefer to locate?_____ Why?_____
17. Do you or your family object to going to any part of the country?_____
18. In what languages can you converse readily with natives of other countries?_____
19. Describe on a separate sheet any business experience you have had in foreign countries_____
20. Has a bonding company ever declined to act as your surety?_____
21. Have you ever made application to us before?____If so, when?____To whom?_____
22. Who referred you to Burroughs?_____
23. At what weekly salary are you willing to begin?_____
24. Name relatives and acquaintances in our employ_____
25. Have you any relatives with other firms or dealers in the office equipment industry?____If so, explain_____
26. Do you have any interests or rights in any patents or inventions respecting office equipment?____If so, explain_____
27. Do you have any physical defect, serious injury or chronic illness, such as hernia, stomach ulcer, diabetes, heart defect, high blood pressure, etc.? If so, explain_____
28. Time lost by illness during past 3 years. ____days. Explain causes_____
29. Date of last physical examination_____ Purpose_____ Result_____

(Continued on pages 576–78)

be made through the use of an application blank. The fact has then been established that the prospect has possibilities for effective employment and should be considered further through delving into his background, training, and business experience.

The application blank is, therefore, much more than the name implies. While it does establish the fact that the prospective employee is interested in a job, it is also used to secure a personal history record.

FIGURE 17—*Continued*

30. ***Note:*** Give full account of how your time has been spent, whether employed or not, since leaving high school. (Appli
For example, if you have been a clerk and a salesman for the same company, list each one separately. Begin with first posi
names and addresses of two of your principal creditors or clients. Please be sure the record is complete by months as well a
Young men should show employment during summer vacation periods and while attending college. ***If you are a veteran***

From Month	From Year	To Month	To Year		Name and Head Office Address of Corporation, Firm or Individual by whom you were employed	Nature of Business	Name, Title and present address of your immediate superior	Pos you and cit loc
					Address			
					Address			
					Address			
					Address			
					Address			
					Address			
					Address			
					Address			
					Address			

31. ☛ Are you employed now? Yes ☐ No ☐ If not, give exact date you left last position_____ (Month Day Year)

32. Give complete details of plan of remuneration in present (or last) position, including base salary, overtime pay, commission rate, drawing account, travel expenses, etc._____

MILITARY SERVICE RECORD

33. Date entered_____ Date discharged_____ Rank_____ Outfit or Unit_____

Duties_____

Special military training_____

Other courses studied_____

Foreign service_____

(More detailed information on a separate sheet regarding your military experience will be appreciated.)

SALES EXPERIENCE

34. Give as much data as possible regarding ***all*** selling you have done. If part time, please state.
Give this record in detail. If you do not have records, write to your former employers to secure the figures. Also submit your monthly sales and earnings statements, and bulletins showing your ranking in sales organization.

What did you sell?	To Whom?	Unit Price	Sales Record by Years: Number Months	Year	Net Sales	Ranking	Gross Earnings for Period	Traveling and Other Expenses	Net Income for Period
				19	$		$	$	$
				19	$		$	$	$
				19	$		$	$	$
				19	$		$	$	$
				19	$		$	$	$
				19	$		$	$	$

How many salesmen in your organization?_____ What was your relative standing?_____

FIGURE 17—*Continued*

cants under age 21 should give details of any jobs during high school.) List separately all different positions you have held.
tion after leaving high school. If you were in business for yourself, give the name of your bank during that period, and the
s years. If unemployed at any time, give dates, place of residence at such time, and names of persons to whom we can refer.
of World War II, please give details of military record in item 33.

ition held y where ated	Describe specifically your duties and responsibilities	Weekly Net Earnings: When you started	Highest	When you left	Last remuneration plan in each job. Also complete item 35	Did you resign of your own accord?	Give specific reasons for leaving, or wishing to leave. Do not merely say "Resigned," "Better Position," "Disagreement," etc.

BUSINESS MACHINES

35. What business machines have you operated?

		Make	Time Operated	Degree of Efficiency
Typewriter?_____ Touch Method?_____	Cash Register_____			
Speed of typing?_____ words per minute	Calculator_____			
Are you a stenographer?_____	Accounting Machine_____			
Speed of taking dictation?_____ words per minute	Billing Machine_____			

ACCOUNTING AND OFFICE EXPERIENCE

36. Show number of years you had ***experience*** in each of the following office and accounting jobs and show "M" if work was handled on machines. Describe items marked (*) in more detail on separate sheet.

____Cash Receipts
____Cash Disbursements
____Billing*
____Sales Journal
____Accounts Receivable
____Credits and Collections
____Accounts Payable
____Expense Distribution
____Payroll
____Labor Distribution
____Stores Records
____Material Distribution
____Factory Overhead
____Costs*
____Standard Costs*
____Merchandise Control*
____Time Study*
____Industrial Engineering*
____Wage Incentive Plans*
____Statistics*
____Initiating Journal Entries
____Depreciation
____Trial Balances
____General Ledger
____Financial Statements
____Income Tax Returns
____Designing New Systems:*
_____
_____
_____

Auditing:
____Expense Vouchers
____Purchase Invoices
____Imprest Funds
____Payrolls
____Sales Tickets
____Bank Statements
____Branch Offices*
_____

Bank:
____Commercial Books
____Proof
____Loan and Discount
____Transit
_____

How many people did you supervise?_____

Number of accounts in ledgers: Accounts Receivable?_____ Accounts Payable?_____ General Ledger?_____

Use a separate sheet to describe in further detail your accounting experience, particularly in regard to methods work, systems, number and type of figuring and accounting machines used in your department, etc.

Data is requested on personal characteristics—those which are of a factual character—such as age, height, weight, marital and family status. In addition, a complete record of education, employment, and military service is usually requested. The names of references are asked for, as well as the names of those people under whom the prospect worked or studied in previous years. Not infrequently, financial information is requested such as ownership of durables—homes, cars, other personal property; life insurance held; mortgages, other debts, and liabilities; and both past and present income. Figure 17, an excellent example of a well-designed application blank, indicates types of information requested by a manufacturer of office equipment.

Selection of Items for Application Blanks. The selection of items

FIGURE 17—*Continued*

37. Schooling

Names and ADDRESSES of ALL Schools Attended	Check Last Year Completed or Name Subjects Studied	Date of Leaving Month	Date of Leaving Year	Did you graduate?
High or Preparatory	1 ☐ 2 ☐ 3 ☐ 4 ☐			Yes ☐ No ☐
Business School	1 ☐ 2 ☐			Yes ☐ No ☐
University or College (4 year degree course)	1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐			Yes ☐ No ☐
Correspondence or Other Courses				Yes ☐ No ☐

What were your average grades in high school?_____ College?_____

38. In what did you specialize at college?_____

39. Check courses you have studied

Elementary Accounting ☐	Cost Accounting ☐	Bookkeeping ☐
Advanced Accounting ☐	Governmental Accounting ☐	Typewriting ☐
Auditing ☐	Salesmanship ☐	Stenography ☐
Accounting Systems ☐	Psychology of Selling ☐	Business Machines ☐

40. What percentage of all your college expenses did you earn?____%. How much was this in dollars? $_____

Give particulars_____ (Recent graduates should show complete details each job in item 30)

41. Students and those out of school less than 3 years Please list on separate sheet names and addresses of 6 school instructors such as dean, high school principal, instructors in accounting, bookkeeping, mathematics, economics, etc., to whom we may refer. Also attach a letter describing in more detail your schooling, experience, extra curricular activities and honors achieved.

	Value	Amount Owing	Amount Due Monthly
42. Do you own your own home?	$____	$____	$____
43. Do you own other realty?	$____	$____	$____
44. Do you own an auto? Make Year	$____	$____	$____
45. Do you own other personal property?	$____	$____	$____
46. Other debts or liabilities—give details:		$____	$____
		$____	$____
		$____	$____

47. What are your average monthly current expenses?_____ 48. Life insurance in force? $_____

49 If you do not own your home, do you rent ☐—live with parents ☐—pay room and board ☐?

50. State source and monthly amount of income of yourself or wife other than from your own regular occupation

51. May we communicate *now* with your { present employer, Yes ☐ No ☐ / former employers, Yes ☐ No ☐ } concerning your record with them?

52. Why do you think you are qualified for our type of work?_____

Note: **Please check your application to see that you have fully answered every question.**

_____
Signature

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for inclusion on application blanks has often been haphazard and unplanned. There are many standard application blanks available which can be secured in quantity at low cost. The immediate reaction frequently is that such blanks will serve satisfactorily. As a matter of fact, they may not elicit the information which is most important to a particular concern—that is, information which will differentiate effectively between men who will or will not subsequently be successful in selling the concern's products.

In one specific instance, a company was using an application blank which included thirty-one items. For each of forty-eight salesmen who had been with the company for two years or more, the information given in each of these thirty-one items was related to later performance on the job. Of the thirty-one items, six were discarded because they could not be scored objectively, twelve items did not differentiate between good and poor salesmen, while the remaining thirteen items were found to differentiate effectively. For instance, information given on the items, "Regularly employed?" and "How long unemployed?" and "Age?" did differentiate between the salesmens' relative performance on the job subsequently, whereas certain other items did not do so. For those concerns which have made studies in regard to the relationship between personal history items and later performance, the experience of this company is fairly typical.

In order to follow the procedure suggested above, it is necessary to select or develop a "yardstick" of performance.[2] This is no mean task, for the volume of goods sold is not the only reasonable measure of performance. The salesman's task may comprise many activities, including selling, service work, maintenance of good customer relations, promotional work, and collections. Some salesmen may sell less than others during a given period, but they may be building for the future. Then, also, sales volume depends not only on a salesman's ability and industry, but also on the fertility of the territory which he covers. Evidence of how well a salesman is doing in relation to a well-constructed quota which takes into consideration relative opportunity for sales might provide a reasonable "yardstick" of performance. Perhaps a single criterion of performance such as this, rather than a general measure of success on the job, may suffice. There is always the further possibility of combining several measures of success on various parts of the salesman's task into a composite criterion. If there are a number of clearly differentiated parts of a salesman's work, the results of which are measurable, it would seem advisable to use a composite index. In contrast, for instance in door-to-door selling, sales volume might be the only criterion necessary.

It might be argued that only those items which are quantitatively measurable, and only those which have been proven to differentiate effectively in the past, should be placed on application blanks. There are at least two important reasons for including other items: first, that experimentation should take place with new items and their relationship with success on the job should be tested at intervals; and, second, that some items should be included for ready reference purposes. For instance, it is well to have on record a salesman's work history in detail even though it may not be of much significance as a basis for initial selection. Furthermore, there is no great penalty attached to get-

[2] See Chapter XVII on evaluation of salesmen's performance.

ting more information on an application blank than is immediately needed for selection purposes, unless so much is demanded that the whole process becomes burdensome to the prospect. The important thing is that the information which is significant in selection is included, and that the questions be so worded and placed in the application blank that they elicit the information desired by management.

Scoring Personal History Records. After it has been determined that a relationship exists between certain personal history items and later success in selling, the problem arises of scoring each item in relation to its predictive value. This is a question of weighting each item, as such, and then of giving weights to grades of variation in the data presented on each item. For instance, the question may arise of weighting age as a predictive factor and then of determining how much weight should be given to age of differing levels. The objective is to secure a composite figure of individual grades in the various items, which will be predictive of success. This procedure is based upon the sound principle that selection should not be based upon one factor solely, but that a number of personal history factors should be allowed to influence judgment.

After weights have been determined and individual records have been subjected to the weighting scale, a total of points for each prospect can be computed. A quantitative scale, with interpretation as to its meaning in terms of probability of later success, can then be established. For instance, the conclusion may be reached that a score of a certain level, let us say 100, is a critical one, and that applicants with that score or under are not likely to succeed in selling work unless there are favorable factors, brought out in interviewing or in aptitude tests, which point in the opposite direction. It should be reiterated that personal history records, scored for purposes of prediction, are only one part of the selection process but, nevertheless, an important part.

In order to explain this process more fully, two illustrations will be given. One of the most widely used scored-personal-history blanks is that developed by the Life Insurance Sales Research Bureau for its member companies.[3] The Bureau's study is based upon the records of 10,111 men without previous life insurance selling experience who were contracted as full-time agents in 1933, 1934, and 1935. These men were contracted by eleven different life insurance companies operating throughout the United States. Data were gathered for each agent on twenty-four personal history items. Actual records were kept on the performance of each agent during his first two years, and relationships were then determined between the data on each item and the data on performance, probably through correlation procedures.

[3] Life Insurance Sales Research Bureau (Now Life Insurance Agency Management Association), *Selection of Agents, A Method of Relating Personal History Information to Probable Success in Life Insurance Selling* (Hartford, 1937).

Ten of the items were selected for inclusion on the suggested personal history record, and relative weights were determined for each item. The items were: number of dependents, occupation, employment status, time with present employer, present membership in organizations, officer in how many organizations, net worth, minimum current living expenses, amount of life insurance owned, and length of negotiations.

It is stated that the scoring system was based on the actual records made by the agents. For instance, scores were given from 1 to 11 according to the amount of life insurance held from none to $20,000. "For example, when a score of 2 points is assigned to a man who owns $2,500 of life insurance, and a score of 4 points is assigned to a man who owns $5,000 of life insurance, it is done not because someone merely *thinks* that a man should own a large amount of life insurance in order to be a successful life underwriter, but because the actual records *showed* that the men who had $5,000 of life insurance tended to remain in the business longer and to sell more life insurance than did the men who owned only $2,500 of life insurance."[4] While this explanation gives some idea of the method by which scores were assigned, the explanation is far from complete. For instance, the maximum weighting on the item of living expenses is 14, whereas the maximum on the item of employment status is only 8. Perhaps the weights were assigned on the basis of the extent of correlation between the data on the various items and data on actual performance.

In each instance, with the exception of number of dependents, occupation, and employment status, there was a direct positive relationship between the relative presence of the item and later performance, at least the weights assigned increase as the amounts of the items increase. For example, as the time with present employer, net worth, etc., increase, higher scores are assigned, although not proportionately in all instances. In the case of dependents, as the number increases up to two and including three the prospects of success increase likewise, whereas five dependents or more is a negative factor. In regard to occupation, in general the prospects of success vary in direct relationship to the previous executive responsibilities assumed by the applicant. But there are some exceptions, notably that an engineer is scored as only 1, whereas a retail store employee is scored as 5. In regard to employment status, as the period of unemployment increases, the prospects of success as indicated by the scores given become smaller. Still, those employed are given a lower score than those who are unemployed for either one or two months.

Interestingly, it was found that the age of the prospective agent affects the points credited for almost every item and therefore must be used as a control variable. For example, a man of 45 years of age will

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

normally have more dependents and higher living expenses than will a younger man. Consequently, older men will normally receive higher scores than younger men simply because of the fact of age. Therefore, the numerical scores obtained by the use of the scoring blank are interpreted in terms of age. A score of 58 was given an *Excellent* or *A* rating for a man of 22 years of age whereas a score of 63 was necessary for this rating on the part of a man of 55 years of age. The total scores were divided on the basis of size, as modified by the factor of age, into five categories: Excellent, A; Very Good, B; Good, C; Fair, D; and Poor, E. Prospective agents who are rated as Excellent tend to produce much more business and are more apt to remain in the business than those with lower ratings. While an agent with a rating of Poor might succeed, the chances are very much against him.

A test of the effectiveness of the rating blank was made for a representative group of agents entirely different from the group used initially. They were all contracted by a single company. Of the 408 agents who were still under contract at the end of the first year, those rated as Excellent produced 154 per cent of the average amount, while those rated as poor produced only 51 per cent of the average. Moreover, of those agents who rated Excellent, twice as many stayed in the business at least for one year as those who rated Poor. While the results of this study are noteworthy, the reader is warned that no rating blank can predict absolute success or failure. Nor can such a blank be substituted for good judgment. The statement is made that it is still desirable to follow other well-established procedures, all of which are of value in reaching a final decision.

A second illustration is taken from the experience of a manufacturer and distributor of materials used in the maintenance and construction of industrial plans, institutions, office buildings, and other structures. This company has many highly trained salesmen operating in the eastern part of the United States and throughout Canada. Twenty-five personal history items are now included among others in the company's application blank and are scored for rating purposes. The company's experience is indicated by the following ratings on some of these twenty-five items:

1. *Age*
   - 50 years 4
   - 45–49 years 5
   - 40–44 years 2
   - Up to 39 years 7
2. *Marital Status*
   - Married 5
   - All others 3
3. *Number of Dependents*
   - 4 or more 0
   - 3 3
   - 2 6
   - 1 7
   - None 3

4. *Insurance*
   - $10,000 or more 5
   - $5,000–$10,000 6
   - $1,000–$5,000 3
   - None 6

5. *Years on Last Job*
   - Less than one year 5
   - 1 to 1 year 11 months 1
   - 2 to 2 years 11 months 3
   - 3 to 3 years 11 months 6
   - 4 to 5 years 11 months 8
   - 6 to 9 years 11 months 10
   - 10 years or more 5

6. *Average Monthly Earnings on Last Regular Job*
   - Up to $150 5
   - $150–$199 4
   - $200–$249 8
   - $250–$349 1
   - $350–$399 5
   - $400 and up 6

7. *Regularly Employed—How Long Unemployed*
   - Employed, full time, regular 7
   - Employed, part time, "relatives" 5
   - Unemployed, less than 1 month 6
   - Unemployed, 1 month—up to 2 months 5
   - Unemployed, 2 months—4 months 1
   - Unemployed, 4 months or more 0

8. *Reasons for Leaving Last Regular Job*
   - Still employed 10
   - Job discontinued (depression; company folded; also illness and circumstances beyond man's control) 7
   - To better self (positive reasons) 5
   - Was let go—dismissed 4
     (but if because of conflict with management, score as negative reason)
   - Negative reasons (friction) 2

The scoring of these various items can be illustrated by the procedure used in reference to the item "Regularly Employed—How Long Unemployed." The research findings indicated that of those individuals employed full time at the time of application, approximately 70 per cent are in the above-average group, or the group of successful employees. Of those employed part time or working for relatives, only 50 per cent are in the above-average group. In the case of individuals who have been unemployed less than one month, 60 per cent are in the successful group; but of those who have been unemployed from one to two months, only 50 per cent are in this group. Only 10 per cent of individuals unemployed from two to four months are in the successful group, while none of the individuals unemployed four months or more at the time of application are successful. Therefore, scores of 7, 5, 6, 5, 1, and 0 are given in this particular instance. The scoring is based upon the proportion of individuals in the various subclasses who were later successful in selling the company's products.

On the total for twenty-five items the significance attached to various aggregate scores is as follows:

Total Scores	*Rating*	*Proportion Successful*
134 and over	Good risk	80 per cent likely to succeed
125–133	Fair—marginal risk	53 per cent likely to succeed
90–124	Failure	7 per cent likely to succeed
125	Critical score	

It was stated by management that there should be serious doubt about employing any man who attains a score below the critical limit. Only in occasional cases where such a low score is due to a peculiar set of circumstances, of which the sales manager is aware, is a man with a score below the critical point hired. This company considers the scored personal history record largely as a measure for eliminating potential failures rather than one for the selection of highly successful salesmen. It is not considered to be a substitute for the judgment of the sales manager based upon long experience. In fact, there is some apprehension among company executives that high scores will create bias in a prospect's favor and cause them to relax their usual critical judgment based upon other selection procedures.

These illustrations point to a number of conclusions. First, it should be fully recognized that there is no necessary logical relationship between various personal history items and desired characteristics on the part of applicants. The data given in each illustration is simply historical evidence of the relationship between various personal history items and later performance for this particular company. For instance, it will be noted that in reference to age, a score of 7 is given for age up to and including 39 years, a score of 2 for age 40–44 years, and a score of 5 for age 45–49 years. There is no easily discernible logical reason why a man of 40 years should be scored 5 points lower than a man of 39 years, nor why a man of 45 years should be scored 3 points higher than a man of 44 years. Still, an analysis of company experience shows that 70 per cent of the men who were hired at any age up to and including 39 years have been successful, whereas only 20 per cent of the men hired at ages 40–44 years have been successful.

The reader should be warned against drawing conclusions for application to other situations of dissimilar character. In most instances, it is necessary for each company to select items for inclusion on its personal history record and to weight these items on the basis of its own experience. In addition, it is desirable to search for some logical justification for a relationship between each item and measures of performance. Surely greater confidence can be placed in an item as a measure for predicting later success if the relationship can be justified deductively, as well as through inductive measures. For instance, one of the ten items in the Life Insurance Sales Research Bureau study was the amount of life insurance owned. In weighting this item, there was a steady progression in points scored from 1 to 11 for various levels of holdings from 0.0–$1,999 to $20,000 or over. The conclusion is an obvious one—that the person who holds a large volume of life insur-

ance believes in life insurance and that his belief has resulted in an accumulation of insurance, probably over a period of years. The very fact of accumulation shows a knowledge of life insurance and of its objectives. One would expect a large holder of life insurance, other factors being equal, to be more successful as an agent than a person without insurance. On the other hand, in the second illustration there appears to be no logical justification for the scoring of 8 points for average monthly earnings of $200–$249 on the last regular job held in comparison with 1 point for earnings of $250–$349. One always suspects in a situation of this sort that the sample was not sufficiently large to be relied upon—that it did not have the statistical attribute of reliability. If such is the case, scores should not be based entirely on company experience. Deductive reasoning should be allowed to modify inductive evidence.

From the point of view of scientific method, the scored personal history record, as customarily used, is a crude but useful device in the selection of salesmen. If a company's experience is based upon the performance of a sufficiently large number of salesmen, that experience becomes significant for purposes of prediction. Furthermore, there is little danger in its use if other procedures are used also, and if selection is based upon an accumulation of favorable evidence. One of the most favorably known people in the field of selection said, "It appears that the relatively simple device of determining experimentally the significance of marital status, number of dependents, organization affiliation, and so on, to sales accomplishment has withstood the test of time better than any other single method employed in predicting sales achievement."[5]

References

Most business concerns use information gathered from references as a part of the selection procedure. While it is not particularly trustworthy, valuable insight into an applicant's characteristics may be secured in this manner at times. It is well to recognize that the information secured *may* be biased because the reference has some reason for doing so, because he does not have the basis in knowledge for an accurate appraisal, or because of sheer carelessness or an unwillingness to say something prejudicial about the applicant. It is desirable for purposes of exposition to consider the reference of the personal recommendation type and the employment reference separately.

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[5] Morris S. Viteles, "Getting Results from a Program of Testing for Sales Ability," *The Value of Psychology in Selecting Salesmen* (Marketing Series, No. 45) (New York: American Management Association, 1941), p. 22. For further information see Albert K. Kurtz, "The Weighted Application Blank," *Experience with Psychological Tests* (Studies in Personnel Policy, No. 92) (New York: National Industrial Conference Board, 1948).

Personal Recommendations. Information of this character may come entirely unsolicited. The prospect, as a part of his credentials, may present letters of reference from people unknown to the potential employer. They are of little if any value. In contrast, at the behest of those responsible for selection, the prospect may ask references to write directly to the concern. These letters may be helpful, at least the probability of an unbiased appraisal of the prospect's character and abilities is enhanced because the letter is not channeled through him to the employer. The likelihood of securing significant information is greater if it is solicited directly by the employer, either from names furnished by the prospect or, without his knowledge, from informed people in the communities in which he has lived. Prospects cannot be expected to give names of people as references other than those who are favorably disposed toward them. This does not necessarily mean that these references will withhold all unfavorable comment. Nevertheless, in order to be realistic, one should presume that the names given for reference purposes are not those of entirely unbiased people. This leads to the conclusion that the prospective employer should himself choose the people from whom information will be solicited. However, the employer suffers the handicap of not knowing those individuals who are sufficiently informed to appraise the qualities of the candidate. Often, obtaining such information may mean an "on-the-spot" investigation through interviews with former neighbors of the prospect, teachers, school principals, bankers, clergymen, and previous employers or business associates. In conversation, people may give information which they would not give in a letter of response to an inquiry. While this direct investigational procedure has much to commend it, the cost may be prohibitive.

The foregoing discussion suggests the likelihood of bias, usually favorable, in the comments of references about prospects because of the manner in which the respondents are chosen. Another reason is the strong desire on the part of Americans to give a man all of the "breaks." References dislike to give any information which will be interpreted negatively, and, therefore, often reply either in an evasive manner or in an affirmative one. This tendency is heightened by the fact that references are often asked for information which they are in no position to furnish. College professors are often asked whether certain students in their classes have bad habits of one sort or another. While a professor usually knows whether a student is intelligent and diligent, he knows little if anything of student's honesty, integrity, sobriety, discretion, and financial stability. Information of this character must come from people who have known the student much longer and in other capacities.

In order to secure usable information, the letter of solicitation to the reference should be carefully prepared. The importance of the

information both to the company and the applicant should be stressed. It may be well to note the possibility of bias and then to urge the reference to weigh the applicant's qualification carefully and to make a careful and thoughtful response. He should be assured that the information given will be held confidential. An appeal of this general type will often elicit the sort of response desired.

Employment Reference. The preceding comments about the personal recommendation apply equally well to the employment reference. Of course, the primary objective is different. It is, in part, to investigate work experience and thus to verify the information given by the applicant on the personal history record. Such questions as "How long did the applicant work with your company?" "Did the applicant resign of his own accord?" "Is the applicant's record clear?" "Would you be willing to re-employ?" "What was the applicant's sales record?" are typical of those asked of former employers. Often a former employer also is asked to rate the applicant on character traits.

Information about the previous work experience of applicants is highly important. A good record with other concerns is probably the best evidence of later success, even recognizing the differences in jobs and human characteristics which they demand.

Physical Examinations

The importance of securing information on a prospect's physical condition before hiring cannot easily be overstressed. Field selling is strenuous work which requires stamina and the physical qualifications to remain healthy and active under changing living conditions. People with physical handicaps, while they may be successful salesmen, are at a disadvantage which must be overcome by superior qualifications of another character. It must be recognized likewise that many people do not have periodic examinations which the medical profession so strongly suggests, and that they are often unaware of adverse physical conditions which may in time become serious and restrictive of normal activity. It is a kindness to the prospect, as well as a protection to the company, to insist upon a physical examination and to let the information provided influence the decision on selection for selling jobs.

Psychological Testing—An Aid in Selection?

Testing to discover whether individuals are capable of performing certain manual tasks acceptably and with reasonable rapidity is established procedure. Psychological tests have been useful for purposes of selection over a wide range of human activity and have played an

important role in solving the problems of adjustment of people to jobs in our industrial society. Whether the range of activity in which they are useful can be extended to include positions of higher order, such as those in sales management, marketing research, and field selling, is the subject of much controversy.

Work, such as assembly of parts in a factory, or typing, which is characterized by the frequent repetition of the same movements—work in which manual dexterity plays an important part in the attainment of proficiency—lends itself particularly well to the application of tests. The nature of the work is easily understood, there are many people doing exactly the same work on whom tests can be tried, and there are no particularly difficult problems involved in obtaining a criterion of performance. No one of these factors which serve to simplify the problem of testing is present in the case of salesmen. The work of the salesman is complex, often there are not enough salesmen performing very similar tasks in a sales force on whom to try out tests, and the problem of obtaining a reasonably accurate measure of performance is a most difficult one. However, the presence of a more difficult problem should not withhold experimentation with a promising tool of management. Science always proceeds from the simple to the complex. Those who are faced with the problem of selecting salesmen should be neither too skeptical nor too optimistic and therefore undiscerning about the possibilities offered by psychological testing.

The present attitude toward psychological testing and other scientific personnel techniques is well expressed in the following quotation:

> The current interest in scientific personnel techniques has made many sales and marketing executives take a fresh look at methods used in the selection of salesmen. The phrase "scientific techniques" is disturbing and exciting. It has a certain halo of distinction and precision that appeals to most of us and it suggests that, at long last, there may be some helpful and dependable solution to the problem of picking the right man for the right job.
>
> Actually the "scientific techniques" referred to so glibly are useful only if they are undergirded by a fresh point of view, for the sales executive must free himself from the habitual acceptance of personal judgment as infallible. There must be a replacement of superficial observation and prejudiced judgment by precise and accurate examination, measurement, and appraisal. There must be a new acceptance of, and demand for, factual evidence and valid measures.

Considering that so few companies in the United States use psychological tests in selecting sales personnel, it is strange that these tests should constitute the most controversial of all current subjects in sales selection. Unfortunately, the controversy is characterized by reckless and intolerant statements of extremes. Tests are considered the scientifically perfect

selection device—or tests are the product of fraud and quackery. The voice of moderation is rarely heard. Critical and thoughtful study is rarely undertaken.[7]

Perhaps the foregoing comments are too critical, but they do emphasize the need for more precise measurements and the present difference of opinion on the usefulness of tests. Still, in the years since this article was written, the use of tests has been increasing at an accelerated rate. The two factors chiefly responsible have been the effective use of testing procedures during World War II and the need for increasing sales forces as the result of a re-emergence of competitive conditions in most industries. More than fifteen million persons were tested as an aid to their classification and training in the service during World War II. It is generally agreed that psychological testing contributed much to the successful prosecution of the war. Furthermore, many businessmen became familiar with testing and its results. Even though there is still a healthy skepticism of the results of psychological testing, to the interested observer it appears that testing is slowly gaining the confidence of management for use in the selection and promotion of salesmen, and that a saner attitude toward its possibilities and limitations is in the making.

Reasons for Use. There are a number of reasons adducible for the experimental use of psychological tests in the selection of salesmen: First, management should believe in experimentation with new methods and procedures which hold some promise of improving performance; second, all informed parties are willing to admit that performance in the selection of salesmen needs improvement. Many people are in selling positions who are not well adapted to them. Moreover, improper selection, followed by high turnover and customer dissatisfaction, is still prevalent in American industry. Third, there are certain characteristics desired in salesmen, the relative presence of which is not adequately determinable in interviews, through observation, or inferable from personal history records. Fourth, there is now sufficient evidence that, under certain circumstances, psychological tests are helpful as a part of the selection process.

Classification of Tests. Tests specifically developed for the selection of salesmen are numerous and, in addition, there are certain standard tests of intelligence, personality, and vocational interest which are used for purposes of selection over a wide area of professional activity. While these tests somewhat defy classification, they can roughly be divided into two general groups: (1) those which attempt to measure the relative presence of a single characteristic such as mental ability, social adjustment, or self-reliance, and (2) those

[7] Forrest H. Kirkpatrick, "An Appraisal of Psychological Testing in Salesman Selection," *Practical Techniques in Sales Selection and Training* (Marketing Series, No. 60) (New York: American Management Association, 1945), p. 13.

which attempt to measure general aptitude—in this instance, for selling work. These two types may be characterized as single-characteristic as over against multiple-characteristic tests. In actual practice, business concerns often use both types of test, despite the fact that the test designed to measure general aptitude may contain sections devoted to the measurement of specific characteristics. Each test, constitutes an additional hurdle for the prospect and may give additional indication of the prospect's likelihood of success.

Perhaps a distinction should likewise be made between the so-called standard tests and those which are developed by concerns for their own use. Many of the larger concerns, particularly, continuously experiment with the development of tests and their validation through sales performance. Of the standard tests, the Otis Self-Administering Test of Mental Ability, the Strong Vocational Interest Blank, the Bernreuter Personality Inventory, the Life Insurance Sales Research Bureau Aptitude Index, and the Composite Inventory and Examination by Verne Steward are most widely used.[8] The first of these is a single characteristic test, whereas the others are of the aptitude type. Parts of tests which, through experience, differentiate effectively between successful and unsuccessful salesmen for particular companies are often combined in use, thereby securing a more reliable test.

Single Characteristic Tests. Business men want to select men who can learn quickly, who can follow complicated directions, and who can readily form new and desirable habits. Therefore, mental ability and alertness, ability to solve problems, and capacity for successful planning are among the characteristics most frequently listed as desired. For the measurement of these characteristics, management may turn to intelligence tests. These tests, in their initial stages, were developed before World War I. They have been widely used for the selection of military personnel, during wartime, and for entrance examinations in educational institutions. Now they have been modified and adapted to meet the requirements, in so far as possible, of selection in industry and are used by many concerns.

Often intelligence tests are used indiscriminately, for their use is based upon the questionable assumption that the higher the intelligence of the prospect, the better salesman he is likely to become. This is not a safe assumption for all types of selling work. For routine selling of nontechnical products, people of high intelligence, who like to work on complicated problems, are not well adapted. Analysis of the records of people with high scores on intelligence tests may show

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[8] See *Tests and Personal History Ratings in the Selection of Salesmen* (Supplementary Marketing Series, No. 1) (New York: American Management Association, 1941), p. 9. Also, for sources of representative psychological tests, see *Experience with Psychological Tests* (Studies in Personnel Policy, No. 92) (New York: National Industrial Conference Board, Inc., 1948), p. 4.

that they were reasonably successful, but that they did not stay on the job. In contrast, people with low scores may fail to sell effectively in less routine selling jobs because of inadequate mental ability. The problem is to determine what level of intelligence is needed for a particular job. Then through the use of tests, followed by validation procedures, it may be possible to establish critical scores below and above which there is little likelihood of success.

As a result of experience in the use of intelligence tests by industry, certain conclusions appear to have general acceptance. There has not been a high correlation between scores on these tests and later performance on the job. In routine selling of very low grade, some studies have shown a negative relationship. In the upper grades of selling, there has usually been a low positive relationship. For most types of selling work, it has not been fully determined whether there is any significant relationship between test scores and later performance. The evidence available is conflicting, and even the proponents of testing make definite statements to the effect that individual experiences with tests differ markedly, and that the experience of one concern cannot be carried over to another without many reservations.

There appears to be a consensus that low scores do have significance as an indication of the likelihood of later failure, but that test scores have little if any predictive value in the middle and upper ranges. Nevertheless, if intelligence tests can isolate some people who will not become proficient because they lack the necessary mental ability and alertness, when, through other selection procedures, they might be included among those hired, these tests have performed an important function in the selection process.[9] They may likewise contribute something to the weight of evidence for or against particular prospects and thus aid in the verification of conclusions reached by other means of evaluation.

While no other individual characteristic has received so much attention as mental ability, tests have been devised to determine whether people are extroverts or introverts, and the relative presence of dominance, self-confidence, and the capacity for social adjustment. Observation of particularly successful salesmen may have convinced management of the importance of these characteristics, but the question of how much is needed of each and the measurement problem have been very difficult to answer and to solve. While tests of these characteristics merit experimentation, the conclusions generally reached are similar to those for intelligence tests. They are of aid in initial screening and for verification. More often than otherwise, tests of these personality traits are not made individually, but as a part of broader tests, such as the Bernreuter Personality Inventory.

[9] H. G. Kenagy and C. S. Yoakum, *Selection and Training of Salesmen* (New York: McGraw-Hill Book Co., Inc., 1925), chap. xii.

Multiple Characteristic Tests. These tests attempt to measure general aptitude for selling work. They may be standard tests, such as those previously mentioned, or an aggregate of various sections of standard tests which, through validation procedures, have been found to be useful for prediction of performance. They can be roughly classed as either interest or personality tests. Of the tests of personality, the Bernreuter Personality Inventory and the Humm-Wadsworth Temperament Scale are probably most widely used. The Bernreuter test was originally designed as a means of isolating persons who might have emotional difficulties when placed under severe stress. It was designed as a clinical tool for use by psychologists and later adapted for industrial use. Through this test, an attempt is made to measure six personality traits: stability, self-sufficiency, extroversion, aggressiveness, self-confidence, and sociability. While this test has the confidence of many people, still the author, perhaps with unwarranted pessimism, once said, "If you are responsible for selecting individuals for jobs, I think you will get very little benefit from personality trait tests, as they are now devised."[10]

Doubt of their usefulness springs from a number of factors, the most important of which is the need for full co-operation of the person who takes the test. The respondent may answer truthfully to the best of his ability, or he may give answers which he thinks will most enhance his possibilities of employment. On a cleverly devised test, the subject may reveal inaccuracy or untruthfulness in response. But, in such a case, the results of the test are of little if any value. In view of these possibilities, personality tests for *guidance* are considered more valid than for *selection* purposes. The reason is apparent. Full co-operation of the respondent can be reasonably expected if a test is taken with guidance in view, but not to the same extent if the objective is selection.

Critics of personality tests also point to difficulties of isolating and defining character traits and of determining their relationship to sales ability and to each other. The question of "how much" of this or that trait must engage the attention of the person in charge of selection. For instance, while aggressiveness may be desirable, too much aggressiveness may have a negative effect. Moreover, sales situations themselves differ markedly and therefore require varying degrees of personality traits. Some character traits almost defy measurement, particularly the moral traits such as honesty, loyalty, discretion, etc. For example, one concern reported, after long experimentation, that no test had been discovered to predict honesty.

Despite the factors noted, personality tests probably have at least limited usefulness for selection purposes. They apparently do indicate

[10] Robert G. Bernreuter, "The Present Status of Personality Trait Tests," *The Educational Record*, Vol. XXI, Supplement No. 13 (January, 1940), p. 166.

the presence of extremes in most traits of which measurement is attempted. If they can predict an extreme lack of self-confidence or aggressiveness, this fact alone is of importance. Furthermore, tests can be validated by determining the degree of correlation between test scores and criterion of later performance. If there is a relationship, and it persists, there is at least presumptive evidence in favor of using personality tests in the selection process.

The tests of interest proceed from another basis. It is reasoned that people with certain interests are likely to be successful in certain jobs; that men in particular occupations have similar interests, likes and dislikes; and that patterns of interest emerge through analysis of men in like occupations. If, then, through testing, the interest pattern of sales prospects can be discovered, a prediction can be made as to whether the prospect has an interest pattern similar to those who are successful in selling. Of the interest tests, the Strong Vocational Interest Blank is probably the most widely used. The test consists of eight parts of subtests. Respondents are asked to indicate like, dislike, or indifference on one hundred occupations, thirty-six school subjects, forty-nine amusements and hobbies, forty-eight other activities, and forty-seven peculiarities of people. First, second, or third choice indications are requested on forty items referring to order of preference of activities, and single preference is requested in forty instances on comparison of interest between two items. The applicant is then asked to rate his present abilities and characteristics as "Yes" or "No" on forty items. In total, there are four hundred questions.

Experience seems to indicate that interest tests have a higher degree of validity as a predictive device than either intelligence tests or personality tests. The Strong Test has been the subject of development since 1922 and has been used for the testing of large numbers of persons in the thirty-seven different occupations for which it is used. The results of using the Strong Test in one instance in the field of insurance are indicated in the following quotation:

> We started giving Strong's vocational interest test in January, 1933, to our Casualty Schools, which instruct about 250 men a year. At the end of three years, and then again at the end of five years, we made a definite check of test scores with the ratings of the managers to whom the men had been assigned. We tried to use actual production as a measure but that proved too difficult. However, we felt that at the end of five years a manager knew pretty well whether or not an individual was doing a successful job of selling. Our last study, I believe, covered 1,020 men, each of whom had been in the field for five years or had left it within that period. We considered as complete failures those who had left the business; termed probable failures those who were producing so little that they could not make a living. Successes and outstanding successes were those making a living and those doing exceptionally well. What we dis-

covered on use of Strong's Interest Blank was this: Taking the entire group (we did a little better taking it by age groups), among those who scored high, on life insurance sales and real estate sales, there were 75 per cent successes to 25 per cent failures. Among those who scored low, the percentage was about the reverse—75 per cent failures to 25 per cent successes. There was a middle group for whom the chances were about 50–50.[11]

Questions of Procedure.[12] The procedural steps taken by one firm in devising and applying psychological tests were as follows:[13] (1) The services of a person professionally competent in the field of selection were secured. (2) Adequate job descriptions for the company's salesmen were prepared. (3) Through a study of successful salesmen, characteristics which they seemed to have in common were identified; (4) Each man in the sales organization was rated on the basis of these characteristics for purposes of validation; (5) A battery of tests was selected to measure as many of the characteristics as possible. (6) The battery of tests was administered to two experimental groups of salesmen—one of highly rated men, another of poorly rated men—in order to validate the tests. (7) The battery of tests was then re-evaluated and revised. (8) The tests are given by branch managers in the field who then send the test papers, the interview guide, and the personal history form on each prospect to the home office for evaluation. (9) A clinical approach is taken to the case of each applicant with the objective of arriving at a judgment, based not only upon the results of the aptitude tests, but also on observations in interviews and a study of the applicant's personal history.

The experience of this company has significance for any management group which has not come to grips with its selection problem. These steps can be taken by any concern with a substantial number of salesmen. If it is necessary to hire a number of men each year, the expense of developing an effective selection program is not prohibitive, and the possible benefits are great, probably out of all proportion to the expense involved. As a result of the program outlined above,

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[11] Marion A. Bills, "Tests That Have Failed—And Why," *The Value of Psychology in Selecting Salesmen* (Marketing Series, No. 45) (New York: American Management Association, 1941), p. 34.

[12] For case histories on the selection of salesmen see the following: (a) Robert N. McMurry, "A Scientific Procedure for the Selection of Salesmen," *Personnel*, Vol. XV, No. 4 (May, 1939), pp. 165–83; (b) Charles F. Phillips (ed.), *Marketing by Manufacturers* (Chicago: Richard D. Irwin, Inc., 1946), pp. 400–401; (c) George L. Todd, "65% of the Men We Hire Now Stick and Succeed," *Sales Management*, Vol. LIX, No. 12, p. 99; (d) O. F. Habegger, Jr., "A Case History in Selecting Salesmen," *Experience with Psychological Tests* (Studies in Personnel Policy, No. 92) (New York: National Industrial Conference Board, Inc., 1948), pp. 15–17.

[13] J. N. Griffith, "A Proved Plan for Improving the Selection of Salesmen," *Revitalizing Your Sales Force* (Marketing Series, No. 76) (New York: American Management Association, 1949), pp. 3–6.

turnover of salesmen was substantially reduced, training became less difficult, sales volume was increased, costs were reduced, and morale was greatly improved.

SUMMARY

After a perusal of the earlier parts of this chapter, the reader will undoubtedly conclude that there are many possible procedures for the selection of salesmen; that they all have some merit and some weakness; that no one of them is entirely satisfactory; that they are more complementary than substitutional; and that selection, if done well, is a complex matter. What is needed is a combination of methods including observation in interviews; inference from the prospect's personal history secured from interviews, application blanks, personal history records, or direct investigation; evaluation of the prospect by references; and measurement of characteristics through testing procedures. Each can contribute something to the selection process. Interviews and references are surely not enough, for each is subject to the fallibility of judgment always present in subjective evaluation. Personal history records, scored on the basis of company experience, and psychological tests introduce an objective element into the selection procedure—one which is much to be desired.

The various parts of the testing procedure may well be thought of as hurdles which the prospect must take in stride if he is to be selected. He may not be equally successful in clearing all hurdles, but conspicuous weakness on one or more creates serious doubt of his acceptability for a selling job. It is a question of accumulating sufficient evidence on a prospect's qualifications to make a sound judgment.

Finally, a question arises as to the possibilities of improvement in recruitment and selection. For a particular concern, the question of improvement depends largely upon the methods currently in use. If men are selected for sales jobs after cursory examination, featuring single interviews by relatively untrained people, the effective tools available to management in this field are not being used, and improvement therefore can be substantial. Unfortunately for the small concern, there is no general test of sales ability which is useful in selection for all concerns. Experience in the development of a selection program, but not the program itself, can be carried over from one concern to another. There appears to be a consensus that application blanks, personal history records, and psychological tests have to be tailor-made, or at least selected with a particular situation in mind. Validation procedures have amply proven that tests or parts of tests which show a correlation with later performance for one concern often show no correlation for another. In view of this situation, improvement in selection will probably come with least difficulty

through retaining the services of a consultant, perhaps of a trained psychologist who has specialized in this field. Someone in a company's organization who has a keen interest in selection should be given general responsibility for it.

Improvement in selection for those concerns which have been particularly effective in this field must come from an improvement in techniques—a product of experimentation and other research methods. Experimentation with known methods and procedures by individual companies and trade associations should continue to be productive. Any improvement in practice, whether the result of new techniques, a further refinement of those now in use, or their adoption for use by additional concerns, will aid in the attainment of important objectives both for the concern itself and for the national economy. There is no problem of greater importance in any economy than that of securing effective adjustment of individuals to jobs. Business concerns can make a significant contribution to the national economy through the improvement of selection procedures.

REVIEW AND DISCUSSION QUESTIONS

1. Review the first three steps involved in the recruitment and selection procedure. State succinctly the problem involved in the fourth step.
2. What are the means commonly used in the selection process? To what extent are they substitutional or supplementary in character?
3. "The interview, while an essential of the selection process, is often used for purposes for which it is not well adapted." Comment.
4. Review the suggested outline for interviewing in Figure 15. Why are many questions included the answers to which could be secured through the use of a personal history record? What is the objective in mind in the preparation and use of an outline of this character?
5. On what bases would you appraise (*a*) the job interviews which you have had with representatives of business concerns, (*b*) the performance of the interviewer?
6. Discuss the problem of determining an index of performance for salesmen. Under what circumstances would it be relatively easy? Relatively difficult?
7. "Sales executives must free themselves from the habitual acceptance of personal judgment as infallible." Comment on this quotation as applied to selection of salesmen.
8. Many of the items included in application blanks and personal history records have no predictive value in regard to later performance on the job. Do you agree? Is the conclusion that they should therefore be discarded necessarily valid?
9. Note the experience of the Life Insurance Sales Research Bureau in the use by its members of the scored personal history record (pp. 580–82). How were the items selected for inclusion on the suggested personal history record? Was there a logical interrelationship, as well

as a purely quantitative relationship, between the items selected and later performance? What results were indicated as to the predictive value of the testing procedure? Do these results have general applicability?

10. How should the total scores computed through the use of the scored personal history record be used by business concerns? Is there evidence that they are used unwisely by those responsible for employee selection?
11. Evaluate the reference as a part of the selection procedure.
12. What is the logical justification of the so-called "interest" tests? What is their position relative to other types of tests as a predictive device?
13. Prepare a step-by-step procedural analysis; also a statement of the results achieved for one of the selection case histories referred to in footnote 12, page 594.
14. Many concerns have not experimented with the use of psychological tests for selection purposes or, after trial use, have discarded them. What are the probable reasons for the failure to use tests in each instance?
15. The attitude of business executives toward psychological tests for the selection of salesmen ranges all the way from complete distrust of their efficacy for the intended purpose to overly great reliance upon them. Why has greater unanimity failed to appear in regard to such tests? What conclusions seem to be justified from the experience of business concerns referred to in this text and in the suggested readings regarding the usefulness of psychological tests for the selection of salesmen? (See *Tests and Personal History Ratings in the Selection of Salesmen*, Supplementary Marketing Series, No. I, American Management Association [New York, 1941]).
16. "We have been able to test applicants for most of the desired characteristics without too great difficulty, but we have not been able to devise a test or to find other means for determining whether applicants for our sales jobs are basically honest, whether they are dependable, whether they are 'self-starters,' and whether they have the ability to see through a complicated problem and arrive at sound conclusions." What suggestions would you make for determining whether applicants have these characteristics?
17. Some of the requests made by business concerns of college placement offices evidence a lack of understanding of the characteristics needed for positions in business, of the selection procedures which produce effective results, and of what can reasonably be expected from such offices. A random selection of quotations from correspondence follows:
    a) "We want to interview only men in the upper 10 per cent of their graduating classes."
    b) "We would like to have you make a preliminary screening of applicants for us. We do not wish to interview any students who have not shown a marked aptitude for sales work."
    c) "We assume that the people listed for interviews will be of good character, honest, and industrious."

d) "I will be in _____ on April 26th and would like to interview 25 or 30 applicants for sales jobs during the day."

e) "We want college graduates, but we are not particularly interested in the courses which they have taken or the grades received in them. We want people who are industrious and who will actually work on the job if hired. We prefer men of better-than-average height and weight who have taken part in athletics and other campus activities while in college. They should have pleasing personalities and be personally acceptable."

f) "Applicants for jobs with us should be sufficiently sold on our company and its products to disregard, for the present, our salary offer relative to other offers, location of work, and similar factors."

Consider these requests from the point of view of an effective selection procedure for sales personnel.

18. The DeWitt Company, a manufacturer of baby foods, has grown rapidly largely because of the general excellence of its products, and its advertising effectiveness. Its advertising has been cleverly designed; and the appeals used, both primary and secondary, have created both a strong demand for prepared baby foods as such and consumer preference for the Company's brands. Sales are made directly both to wholesalers and chain-store companies. A missionary sales force works constantly with retailers on new product introduction and other promotional activities.

    Recently the president of the Company became dissatisfied with the field promotional activities. He attributed the difficulty to a lack in effectiveness on the part of the missionary sales force. Evidence had accumulated that this force was not an effective, hard-hitting group. Turnover was high—about 20 per cent annually; complaints from retailers were not uncommon; and wholesalers often objected to missionary salesmen's activities. The president became convinced that selection, training, and supervision were at fault. He directed the sales manager to suggest means for improvement promptly.

    Under circumstances such as these, what procedure would you suggest that the sales manager follow?

19. One of the large steel companies requires its interviewers to fill out an interview record and score each man who applies for a sales position as "poor," "fair," "good," "very good," or "excellent" on each of the following characteristics: general appearance, personality, poise, mental alertness, education and experience, industriousness, and cultural background. Instructions are provided to guide interviewers in the scoring procedure. In your opinion, can the extent to which these personal attributes are present be ascertained by the interview method? If your answer is in the negative, suggest other means of securing the information.

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Chapter XX

TRAINING OF SALES PERSONNEL

THE next step after recruitment and selection in the management of sales personnel is training. As noted previously, the three are very closely interrelated. If selection has been handled effectively, the tasks of training and, later, of control and supervision are much less difficult and more productive in terms of orientation to the selling job and to performance. Trainees are more likely to have the capacity needed and the motivation to take instruction well. A proper attitude, which means so much in any educational effort, is more likely to characterize the trainee and lead to an appreciation of the significance of the training program, of the desirability of his wholehearted participation in it, and of the mutual benefit which may be realized.

The great majority of people hired for selling jobs need training but, obviously, in varying degrees. Even when salesmen of direct competitors are hired, it is a mistake to assume that nothing by way of training is needed. Companies differ too greatly in background, policies, and products to assume great similarity in most instances. Business executives often note their unwillingness to hire salesmen of long tenure in competing concerns because their habits of action, language, and thinking have become too crystallized, and training, although needed, either through sheer inability of the man to understand and accept new ideas or his unwillingness to do so, is ineffective. Nevertheless, men who have had experience in selling, perhaps of somewhat similar products, need less training than do beginners. With beginners, it is a question of starting from scratch and, through training materials and instruction, of imparting a knowledge of company history, present organization and operations, how products are manufactured and used, how they are sold, and the techniques of selling. In addition, practice in selling under supervision, followed by constructive criticism, is usually included in a training program.

There is no time limitation in the training of salesmen. In a very real sense, training is always going on for all salesmen in a company's employ. At least it should be, if a company is to be reasonably successful in sales activities. Training merges into what we designate as control and supervision. Letters in which suggestions are made or instructions are given to salesmen are, in a sense, training material.

Also, we often speak of initial training and retraining. In any concern which features new product development, improvements in products, or research to discover additional product uses, continuous training is needed if salesmen are to be fully effective. If progress is being made in products and selling techniques, there is no logical end to the training process. Initially, it may be formalized into a definite program for the newcomer has much to learn; later, it may be handled by periodic conferences either at the home office or in regional or branch offices. Often it takes the form of a continuing and persistent attempt to get distributors and retailers to train their salesmen in selling the company's products. This may involve training of trainers who go back into the field to work with salesmen in an attempt to improve their performance.

Since the end of World War II, there has been an increased emphasis on sales training. The postwar need for it became apparent to many business executives early in the war years. As an outgrowth of this recognition of need, the National Society of Sales Training Executives reported for the Committee for Economic Development on "Selecting and Training Postwar Personnel."[1] There was little real selling effort between 1940 and 1948, for all goods were scarce. Anything produced found a ready market. But in late 1948 evidences of a plentiful supply in many lines became apparent and greater emphasis on planned selling of an aggressive nature came with it. Both training and retraining were greatly needed and secured the careful attention of management.

OBJECTIVES OF TRAINING

In our previous discussion of the importance of the managerial function in reference to sales personnel, the general objectives realized through greater proficiency in management were considered at some length.[2] The strategic position which the salesman holds in the marketing process was stressed, as well as the opportunity which he has either to increase the prestige of his concern and the acceptance of its products or to jeopardize its competitive position and therefore its future by his attitude, activities, or failure to perform the duties assigned to him. He is in a position of responsibility; however, he does not work under close supervision, and therefore errors in judgment or general ineffectiveness cannot be discovered and rectified quickly. These factors strongly suggest the need for training.

Sales training is an educational effort. It is an attempt to make salesmen more effective and thus more productive in their assignments.

[1] National Society of Sales Training Executives, *Selecting and Training Post-War Sales Personnel* (Reported for the Committee for Economic Development, 1943).

[2] See pp. 530–32.

Management has an interest in three interrelated objectives: first, to make salesmen as productive as their innate abilities will permit; second, to reduce the time interval over which effectiveness in sales positions is attained; and, third, to increase tenure or, otherwise stated, to reduce turnover. In addition, management is vitally interested in having the products sold well adapted to the buyer's needs. There appears to be a consensus that each of these objectives is attained in some degree through training.

Methods of work are always learned in some manner. If there is no formal training program, the salesman, through some verbal or written instructions, observation of others who are engaged in selling activities, or by trial and error, is likely to become more proficient if he stays on the job. In the process, however, he will probably acquire bad habits as well as good ones, and considerable time may elapse before he becomes even reasonably proficient. Unless a salesman is more analytical than most people in selling jobs, he will probably fail to recognize either errors or deficiencies in his work. Neither will sound methods, accidentally used, be recognized and repeated. In other words, it is doubtful whether most salesmen can be depended upon to develop effective methods of work. Nor should they be expected individually to assume the entire responsibility for so doing. Training, in contrast, imparts a knowledge of accepted methods and, through their use, men become more productive, and more quickly than otherwise.

The benefit of previous observation and experience of men in similar jobs is made available to the trainee. For instance, an office equipment company executive stated that, through a training program, in three years trainees reach a compensation level formerly requiring two or three times as long. Through reaching a reasonable level of performance quickly and thereby increasing compensation, frustration is lessened, morale is strengthened, and turnover is reduced. The effective adjustment of the individual to the job, with all its attendant benefits, both to the individual concern and to the national economy, is also considerably improved through training.

VARIATION IN TRAINING BETWEEN COMPANIES

The importance of the training function varies substantially between companies, depending largely upon the complexity of the products handled, the nature of the market being cultivated, and the previous training of members of the sales force. Furthermore, the predilections and prejudices of executives, based upon their experience and training, may have much to do with the nature of training programs. Programs, such as those of the Armstrong Cork Company, which will be commented upon shortly, and the International Busi-

ness Machines Corporation, evidence a profound belief in educational processes to attain desired results. The attention given to training must be explained on this basis as well as the bases mentioned above, for dissimilarities in programs exist even when products, markets, and previous training of salesmen are markedly similar.

As the outgrowth of variation in these factors among others, formal training programs may take between one and two years or may be completed in a like number of weeks. For instance, the sales-training program of the Armstrong Cork Company covers a period of about nine months.[3] The company has a large variety of products in the floor covering, container, insulation, and acoustical fields and has been particularly effective in the development and marketing of new products. Its products have many uses, unknown to the layman. Manufacture is complicated, and a knowledge of manufacture is of importance to sales representatives. In addition, company executives firmly believe in the efficacy of training. Therefore, the company's training program is carefully planned and occupies a considerable period of time. The program of the International Business Machines Corporation provides for fifteen months of initial training and for continuous but less intensive training thereafter. Its products are technically complex and their uses are multiple. Every completed transaction, either of sale or lease, is likely to be preceded by an intensive and time-consuming study of the customer's needs and of the manner in which IBM equipment can aid in the solution of his problems.

In contrast, the training problems of the H. J. Heinz Company offer a case in point. The training program covers a period of two weeks. Informality is apparently the keyword during the first week, in which the new salesman is given information on the Company's background, products, methods of sale, service, and advertising. One day is spent with an older salesman on his route. During the second week, the salesman covers the territory assigned to him with a Head Salesman who teaches him what should be done in retail outlets and demonstrates effective sales techniques. No further initial training is considered essential. The products, while many, are fully standardized, their uses do not vary substantially between purchasers, they are sold not to ultimate users but to the trade, and sales are made in large measure through advertising and other sales promotion, rather than through direct solicitation. In instances such as this, while the salesman is more than an order-taker, the tasks involved in selling are not particularly complex, and the necessary training can be accomplished in a relatively short period.

[3] Information on the training program of these concerns was secured from The National Industrial Conference Board, Inc., *Training Solutions of Company Problems* (Studies in Personnel Policy, No. 22) (New York, 1940).

The comprehensiveness of the training program depends likewise upon the policy in selection. Some concerns, as a matter of policy, hire only trained men and thus shift part of the training burden to other concerns. Then, also, selection policy may dictate the hiring of persons with a high level of academic training who require less formal training. Therefore, the standing of the salesman, both in academic training and in business experience at time of employment, modifies the content and duration of the training program and, in part, accounts for difference in programs between companies.

NATURE OF THE TRAINING PROBLEM

The training problem is dual in character. First, it is one of imparting knowledge in such a way that it will be fully comprehended and acquired by the trainee; and, second, it is one of establishing habit patterns based upon correct habits of work as indicated by job analyses. There are certain things which the salesman should know, if he is to represent his company effectively. There is no substitute for knowledge, either of the fact itself or of where it can be secured readily. Therefore, it is a question of what must be done in order to be reasonably sure that knowledge is acquired, not superficially, but deeply implanted in consciousness, so that it will be available when needed.

In the solution of this problem, the psychologists have much to contribute through their analyses of the learning process. The second part of the over-all problem, the formation of habit patterns, is *not* a matter of knowledge as such, but rather one of procedure. We are all creatures of habit in that we do certain things time after time in almost exactly the same manner. If a person is effective in his job, it is probably because he has learned to do certain things well. This means not only that his habit patterns are well established but that they require a minimum of time and effort. Often we ask ourselves why a particular person is able to do so much and, apparently, without great effort. The answer probably is that he has good work habits. The problem of training is to inculcate such habits in salesmen, and do it before less effective habits have been learned through the trial and error method.

Contributions of Psychology

In constructing the training program it would seem to be a truism that it should be fashioned in accordance with our knowledge of learning principles and of habit formation. Therefore, those individuals in positions of responsibility and training should have a thorough knowledge of the psychological aspects of the training problem.

Psychological studies of interest, motivation, attention, repetition, memory, habit formation, association of ideas, and individual differences have much to contribute to an understanding of the problems involved in sales training and to their solution. While no attempt will be made fully to explain their contribution, some discussion, particularly of interest, motivation, and habit formation, is in order.[4]

Interest and Motivation. Interest is largely a product of motivation. If motivation is sufficiently strong, attention is focused on the materials and procedures of training, comprehension is facilitated, and retention of ideas is more likely. Motivation may be either extrinsic or intrinsic. Extrinsic motivation is the product of external rewards such as prizes, honors, or the expectation of higher performance later on the job. Where there is intrinsic motivation, satisfaction is gained from the activity itself. Learning for the sake of learning is of the latter type. A training program which is well planned and well executed will furnish motivation of both types. If the teaching in training programs is done with enthusiasm and inspiration, the trainee will become interested in the materials themselves. He will then learn much and that which he learns will be retained. Nevertheless, much of the trainee's motivation will be of the extrinsic type. The fact should be continually kept before him that training will greatly affect his later performance on the job, his likelihood of advancement, and his future earning power. Among younger trainees in particular, the possibility of recognition for superior performance during the training program itself may arouse interest and create stronger motivation for effective work. Competitive examinations on the materials presented have been used effectively with this objective in mind. At least, it should be recognized that one of the principal tasks of the trainer is to increase motivation and to stimulate interest in every possible way.

Habit Formation. The importance of habit formation in training cannot easily be overstressed. It is not only that there are more effective ways of doing things which can be learned, but that habit itself, in part, removes the strain of mental effort and thus increases effectiveness. Established habits have four essential features: uniformity, facility, propensity, and independence of attention. We are prone to do the same thing, in the same way, with great facility because of repetition, and almost independent of mental attention, when a certain stimulus appears. Most of the things which we must do from day to day are handled in an "habitual manner," and time and effort are thus

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[4] For additional information on psychological aspects of training see *Handbook of Sales Training* (New York: Prentice-Hall, Inc., 1949), chap. vi; Joseph Tiffan, Frederic B. Knight, and Charles C. Josey, *The Psychology of Normal People* (Boston: D. C. Heath & Co., 1940), chap. viii; George D. Halsey, *Training Employees* (New York: Harper & Bros., 1949), chap. ii.

conserved. It is very important, however, that we learn effective habits. Fortunately, certain principles have been evolved on habit formation which give some indication as to correct procedures in training.

First, habit formation along accepted lines is much less difficult if the trainee has not previously learned faulty methods of work and practiced them over long periods. Firmly implanted habits, as every adult knows, are very difficult to change. Professional coaches in sports are almost unanimous in their contention that teaching is much easier if the student has not become familiar with a sport through attempts at self-instruction, or through attempted emulation of others, who likewise may have lacked formal instruction. This suggests that a substantial training program should be given to beginners in the selling field, also that it should be followed by careful observation of younger salesmen by supervisors over a longer period in order to be sure that bad habits are not being ingrained.

Another principle involved is that habits are formed by doing, not by absorption of facts or theoretical knowledge. Much can be done by indicating the proper methods and procedures for accomplishing sales tasks, but this is not habit formation. In order to inculcate habit, these methods and procedures must be followed over and over until they become habitual. This strongly suggests a procedure involving (1) demonstration by the trainer, (2) trial by the beginner, (3) correction of mistakes, and (4) later supervision until correct habits of work have been formed. Furthermore, it strongly suggests at least some measure of training on the job in addition to training in the classroom.

It is doubtful whether correct habits of work can be learned through observation of successful salesmen. Kenagy said that "the assumption that correct habits of work will form naturally from observing the acts of another, even an expert, when followed by the requisite amount of experience, is entirely baseless."[5] Through the observation technique, it is assumed that the trainee has the ability to discern clearly what factors in another salesman's performance are chiefly contributory to success. In contrast, in the building of training programs, the services of trained observers are used for this purpose, and their conclusions affect the training materials used. Training which emphasizes doing, under supervision, rather than the acquisition of theoretical knowledge or observation of successful salesmen, will create the best work habits for the trainee.

There is a multiplicity of things which the salesman must do on the job, and a large proportion of them, because they must be repeated frequently, are subject to habit formation. Almost inevitably, habits will be formed, for there is a large measure of similarity in the

[5] W. J. Donald, *Handbook of Business Administration* (New York: McGraw-Hill Book Co., Inc., 1931), p. 1218.

tasks which must be performed from day to day. These habits have roughly been classified as habits of action, language, and thinking.[6] The difficulty with this classification is that the classes are not mutually exclusive, inasmuch as language and thinking likewise involve action, either of a physical or a mental character. Psychologists also speak of acquired ways of feeling and acquired attitudes as habits. Apparently, in their parlance, the term "habit" is not confined solely to patterns of action—that is, to manners of procedure—as suggested previously. If a person has a certain attitude, for instance, an aversion to taking directions from other people, he may have an habitual negative reaction whenever directions are given to him. Whether the attitude itself should be classed as a habit is open to question, but the reaction based upon it can reasonably be considered as a habit of thinking. In any event, both patterns of action and attitudes of salesmen, because of reactions based upon them when certain stimuli appear, are of importance in sales training.

The foregoing discussion suggests the difficulty of classifying selling habits other than as physical or motor habits, as they are usually called, and as thinking habits. In any activity, both are present in varying degrees. For instance, in making reports, there are patterns of action both of a physical and of a mental nature. Activities, such as preparing customer lists, checking stock, making calls, delivering products, and attending conferences, involve primarily physical habits. All can be acquired through instruction and practice. The use of language likewise may become habitual to salesmen. Even those salesmen who consciously attempt to vary their sales presentations repeat certain sales arguments over and over in much the same way. It seems clear that salesmen should acquire habits of language in interviewing prospects. Language patterns may develop from instruction in public speaking, suggested specific answers to common objections, or standardized sales demonstrations. More will be said about the desirability of uniformity in language habits at a later point in this chapter.

In reference to habits of thinking, it should be recognized that they are of two sorts, first, reactions based upon attitudes as previously mentioned, and second, patterns of reference to which problems are referred. "One gets into the habit of dealing with such problems and bringing certain considerations to bear upon them, which essentially merits the term habit, altho the operation may be considered less mechanical and inflexible than is the case in the ordinary overt motor types of habit."[7] The importance of habits of thinking, often neglected in training programs, cannot easily be overstated. Particularly

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[6] American Management Association, *The Training of Salesmen* (Sales Executives Series, No. 1) (New York, 1924), p. 18.

[7] Edward S. Robinson and Florence R. Robinson, *Readings in General Psychology* (Chicago: The University of Chicago Press, 1923), p. 123.

in the selling of high-value technical products, difficult problems constantly arise which require considerable study for their successful solution. As the problems themselves are far from identical, an effective manner of dealing with each, learned in part through sales training, is of great aid to the salesman. Consideration of cases or problems, as used both in schools of law and in schools of business administration, in order to acquire an habitual method of attack upon them, may be a useful part of the training program.

In regard to attitudes of the salesman and habitual reactions based upon them, much can be done through training methods. There is nothing of much greater importance than that the trainee secure the proper attitude toward his concern, its products, and the profession of selling. He must have confidence and pride in the company which he represents. He must believe that the products which he sells are of good quality and capable of meeting the needs of purchasers. Moreover, he must feel that the profession of selling is a dignified one—that it has essential worth and importance, particularly in a free enterprise system. Otherwise, he will never become a truly successful company representative. All this is a question of attitudes which should be instilled in the trainee, both during the formal training program and thereafter while on the job.

Aids to Learning. As a result of long experimentation, psychologists have evolved certain principles of learning which are of aid in the development of sales training programs. They should not be disregarded, for through them learning can be facilitated. There can also be somewhat greater assurance that the trainee comprehends and retains the training materials presented. Psychological aids to learning are of importance because the time available for training is never sufficiently long for a thorough treatment of all pertinent subjects and time is usually limited by cost considerations.

Attention has been given to certain principles of habit formation. Of equal significance is the principle of individual differences. Even among a relatively small group of trainees, there will be differences of previous training, experience, and of ability to comprehend new ideas. Also, certain individuals will have formed habits—either desirable or undesirable ones—for selling work. Some trainees will not know how to study, others may have a prejudice against training as more schooling, still others may lack the ability to read effectively. Psychologists tell us that some people are visual-minded, others auditory-minded. This means that some people comprehend ideas more quickly and recall them more readily if they have come to them through the sense of hearing rather than seeing. Others have difficulty in assimilating ideas orally presented and greatly prefer either the written word or other forms of visual presentation, such as charts or motion pictures.

These differences strongly suggest that the training program should attempt to classify trainees into groups with like characteristics and to adapt the program presented to the needs of each group. In so far as possible, individual instruction and more extended training should be given some trainees than others. Both are often provided by business concerns which are particularly conscious of the complexity of training as affected by individual differences among men. The desirability of both auditory and visual presentations is also suggested, for otherwise the program is likely to be ineffective for some trainees. Finally, it should be recognized that the problem of program adaptation to individual differences can partially be avoided through controlled initial selection of homogeneous groups.

Other principles of learning are concerned with repetition and timing. Frequent repetition aids in the "setting-in" process. If we hear some idea expressed frequently and if it is expressed with great conviction, we are likely to retain it. Constant reiteration of important basic ideas is a must in any training program. Timing or spacing is also important. We know, for instance, that retention is greater if time elapses between two or more readings of a manuscript. This fact suggests that the broad divisions of a training program should be carried on simultaneously. It is not good to study the product the first week, selling methods the next, and so on. More will be retained and their interrelationship will become more apparent if each is continued throughout the duration of the entire program. The principle, briefly stated, is that spaced periods of studying or practicing are more productive than a concentrated period of like duration.

Active participation in a training program always facilitates learning. This can be accomplished in part through providing the opportunity both for asking and answering questions and for recitation in classes. Requirements that notes be kept, that examinations be taken, and so forth, are helpful, but voluntary participation, induced by the nature of the program itself and the enthusiasm of the officials who participate in it, is probably more productive than specific demands upon the trainee. It has been stated that information is better assimilated if the need for it is very apparent. The implication of this statement is that training will be more effective if it is along practical lines. If the trainee can be shown clearly *how* information or habits of work will help him later, motivation for learning will be strong. Moreover, if training is given just before it will be used, it is more likely to be heeded. When attempted performance follows almost immediately after instruction, as in "on the job" training, its use and, therefore, its acquisition for later use is almost assured.

Finally, it is desirable to keep a number of other principles pertaining to learning in mind. First, learning—in particular, retention—is facilitated through the association of new ideas with those already

known. Second, frequent periods of rest and relaxation are helpful in order to secure a maximum amount of assimilation of materials. Third, periodic reports to the trainee on the progress which he has made strengthens morale and thus motivation. Fourth, arrangement of training material from simple to complex aids learning. However, there are conflicting principles here. Some people argue that the arrangement should be from the most to the least interesting material. A better case can be made for arrangement on the principle that what is needed later for purposes of comprehension should be presented first. Such an arrangement probably supports the simple to complex principle. In any event, training executives should give considerable thought to the question of order. Fifth, frequent summarization is helpful in the learning process.[8] It is in line with the desirability of reiteration, and, moreover, it facilitates learning of ideas in logical order.

ORGANIZATION FOR TRAINING

Centered Responsibility

Although concerns differ markedly in their organizational emphasis on sales training, there appears to be one general principle on which they all agree. It is that responsibility for training should be centered in one person. The reason for this is that training is something like research, planning, and other long-range activities. Unless an interested and qualified person is given full responsibility for it, the work is likely to be neglected or handled ineffectively. If a person is to become highly proficient in training work, he should have no responsibilities other than training and, perhaps, selection. These two are, of course, closely allied. Training is a full-time job, even for a small sales force, for there is much to learn and plan if the job is done well.

The research and planning necessary do not vary with the size of the force trained. However, for very small concerns, cost considerations may dictate a combination of duties, including training work, for a particular executive. In such a situation, however, it is preferable to combine training work with other staff activities, rather than with line activities. It is not so likely to be neglected in such a combination, for the urgency of line responsibilities is not present. The operating sales executive is too occupied with current problems of an urgent character to handle training. This fact has led to the development of a training unit in many large companies, usually in staff positions to the chief sales executive.

[8] For suggestions on teaching procedure see: Ellis C. Maxcy, "How People Learn: A Guide for Teachers in Industry," *Personnel*, Vol. XIX, No. 6 (May, 1943), pp. 706–21.

In reference to the question of whether some person or group should be assigned to full-time work on a sales training program, the National Industrial Conference Board, Inc., said: "It is significant that those organizations with the longest and richest experience have found it essential to relieve some men of operating responsibility and assign them to the full-time task of developing and administrating the training program. The perfect formula would seem to be one which produces effective results and leaves as large a share as possible of the training responsibility to the operating supervisor and manager."[9]

Location in Organization

While there is a consensus that responsibility for sales training should be centered in an individual or in a separate department head, the location of such a department is often the subject of controversy. The question is whether responsibility for sales training should be given to a personnel department which handles all personnel matters, or whether it should be given to the sales department. In favor of the personnel department, it is contended that production, sales, and service personnel require the same basic knowledge of products and how they are manufactured; therefore, multiple training programs are unnecessary. Such a contention has been made in reference to training for manufacturers of industrial equipment, office equipment, and other technical products. Perhaps training of this character should be centralized, but other training is needed likewise and may be better handled through sales executives. Even when responsibility is in the hands of a personnel department, product training is usually followed by special instruction in reference to sales, production, or administration. Of 132 companies which furnished information to the Metropolitan Life Insurance Company, 70 per cent give control of sales training to the vice-president in charge of sales while 30 per cent have centralized all training activities.[10] While there is no clear-cut alignment between location of control and type of product, centralization tends to predominate in durable goods.

The virtues of centralization versus decentralization in this instance, as well as others, have long been debated. The question involved is largely one of the degree of essential likeness in the tasks to be performed. If the task of training salesmen varies substantially from that of training production people, or those in service or finance, then it should be handled separately under sales executives. This does not imply that production people should not participate in training,

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[9] The National Industrial Conference Board, Inc., *Training Solutions of Company Problems* (Studies in Personnel Policy, No. 22) (New York, 1940), p. 74.

[10] Metropolitan Life Insurance Company, Policyholders Service Bureau, *Training Salesmen* (New York, 1949), p. 7.

only that sales training should not be a function of a centralized personnel department. For highly technical capital goods, manufacture by a company and use by other companies are very closely interrelated. Salesmen must be technically trained and have a thorough knowledge of manufacture. For such products, there may be little difference in the training needed for sales, service, and production personnel. In any event, co-operation between sales and personnel departments in reference to sales training must be constantly maintained. While full co-operation is important, the more important considerations are the degree of essential likeness of the training work to be accomplished and which department is in the better position, all things considered, to do the work.

Responsibility of Training Departments

When sales training is under the control of the chief marketing executive of a concern, responsibility may be delegated to an assistant in the home office or to a field sales manager. This is likely to happen in small concerns. In larger concerns, however, a special department may be created for this particular purpose. It may be given staff responsibilities only, or both staff and line responsibilities. In the case of one paper company, the responsibility for developing and co-ordinating sales-training activities is given to a sales personnel manager. His is a staff function of planning, organizing, and co-ordinating. The line training responsibilities are carried out by the members of the field sales group. The divisional sales managers are the key field trainers and also handle all other sales management functions related to the administration of their respective divisions. In the case of an office machine manufacturing concern, a sales personnel department performs like functions but, in addition, actually does the training work through branch-office directors of training. While these directors are under the line authority of the branch managers, they are largely controlled in their operations by the home office training department. A life insurance company has a field training division of more than 170 staff members, supervisors, and specialists. Its work is both of a staff and line character, as this division not only plans activities but also maintains a continuous program for more than 27,000 agents.

For most large concerns with extensive field organizations, all training activities cannot be centralized. The cost is too great, also it would entail too great a drain on the time and energy of home office executives. Then, also, most people agree that there should be some training on the job in the field. Thus it is often a question of division of function between the home office and the field with the home office department taking the lead in planning, gathering of materials, sched-

uling, for instance, with much of the actual training work being done in the field. Also, the home office must select and train the field trainers if they are to do an acceptable job. It cannot safely be assumed that divisional managers, branch managers, or sales supervisors can do the job effectively without training and direction. This is a mistake of the first order which many companies have made in the past.

Questions of Staff

The size and make-up of the sales training staff depends upon the extent to which operating people are used in the training program. The staff needed for the performance of a purely staff function is always small and may consist of only one person who acts in an advisory capacity. Or, as in the insurance case previously cited, the staff may be very numerous for it trains as well as plans for training. Neither company size nor industry appear to have any direct bearing on the size of the training staff. Rather it is the basic training policy which governs, in particular, the extent of line responsibility assumed.

The make-up of the staff depends upon the diverse abilities which are needed and the extent of the work to be done. In addition to the department head, often called the director of training, there may be staff members who are specialists in the preparation of training manuals and other written materials such as conference scripts, or training charts. Other specialists act as conference leaders. They may aid in the development of programs and be in charge of conducting training sessions. Usually someone is given the responsibility for the preparation and distribution of training aids, such as charts, slide films, motion pictures, and posters. A research function may dictate the appointment of a staff member for work on job analyses, program development, and follow-up work. In addition, there are likely to be field-training supervisors and instructors. Specialization may be carried much further in large departments but, if possible, organization should provide for conference leaders, writers, training-aid specialists, researchers, and field instructors, as these positions call for widely diverse abilities and training.[11]

Qualifications of Trainers. Perhaps it would be well to distinguish between the qualifications of directors of training, conference leaders, full-time training instructors in the field, and salesmen selected to train new men on the job. In all of these positions people are attempting to instruct others. A director of training and, to a lesser extent, conference leaders, must be able to plan, organize, and co-ordinate the work of many people. While other training people perform these functions, they are more concerned with execution. All training peo-

[11] For organization charts of training departments, see *ibid.*, pp. 10–12.

ple must possess one quality—skill in human relations. Unless an individual has those personal attributes which result in easy, friendly relations with other people and is highly adaptable to changing circumstances, he probably will not be successful in a training job.

The respective values of selling experience and of teaching experience as qualifications for trainers have been widely discussed. People in the academic profession seldom have had field experience in selling. It is probable that many of them would not be successful in sales work. Conversely, successful salesmen are not likely to be good teachers. There have been many instances in which highly successful salesmen were called upon to instruct others and proved ineffective. Often experienced salesmen have little comprehension of why they are effective, nor do they have the patience to go through the necessary routines for instructing others. This question of experience versus teaching ability was debated at length in a meeting of the American Management Association in 1945. The following statements were made:

"Very often . . . the man who is himself a specialist in the field does not make a good trainer. We cannot evaluate a man's fitness for training in terms of his grasp of the subject matter. . . . To put it another way, what is the most important single aspect of training? In my opinion, it is the ability to diagnose learning difficulties, which will be different for different trainees, even though a standardized package is being presented. That skill is an unusual skill, one which is developed over a period of years; but I believe that I could pack product knowledge into a matter of months."

. . . .

"I think instructors should be selected, whenever possible, from men experienced in the industry who have a flare for teaching. If you cannot find them in the company or in the industry, then you must go outside and get professionals. But teachers who lack industry experience should be required to get the feel of the industry in the actual selling field before being permitted to conduct sales-training classes."

. . . .

"I don't see how a man can impart selling techniques unless he has been through the mill himself. I don't think he would command the salesmen's respect if he hadn't."[12]

It is doubtful whether people will be successful as trainers unless they can do effectively that which the trainee will subsequently do on the job. A trainer is in much better position if the trainee recognizes that he is securing instruction from an experienced person. He then has more confidence in the training given. Therefore, the problem is to find successful salesmen who have natural teaching ability, who can

[12] American Management Association, "Building the Sales Training Program," *Practical Techniques in Sales Selection and Training* (Marketing Series, No. 60) (New York, 1945), pp. 33–41.

think clearly, and who possess good study habits. If these qualities are associated with good appearance, good personal habits, a willingness to accept responsibility, and skill in human relations, the person who possesses them will probably be successful in training work. People with the necessary experience and personal qualifications are few in any organization, and the problem of selecting them is a most difficult one.

REVIEW AND DISCUSSION QUESTIONS

1. What are the basic objectives of sales training activities? Why is formal training likely to be more effectual than "self-training"?
2. "Sales training programs differ markedly in the number and variety of activities included, in duration, and in the costs incurred." Why?
3. Sales managers agree that strong motivation to succeed often compensates for deficiencies in other personal attributes considered of importance for sales work. How can the source and extent of motivation be determined through selection procedures? What attitudes or conditions are likely to create strong motivation to succeed?
4. Comment upon the assertion frequently made that "fortunately, we are all creatures of habit." Would you argue this point in the negative as well as in the affirmative?
5. Established habits have four essential features. What are they? What does a knowledge of the principles discovered in regard to habit formation suggest in reference to the content and procedures of sales training programs?
6. In what particulars may the work of selling become habitual? Consider this question in view of habit classifications. Is it reasonable to consider attitudes as habits?
7. Would you agree with the assertion that training by "absorption" does not build correct work habits? Indicate your reasons for agreement or disagreement.
8. What preliminary steps might well be taken to facilitate learning on the part of trainees? What principles of learning should be regarded in the planning and execution of a sales training program?
9. Anyone who has been connected with sales training programs has a mental image, usually in the likeness of a particular individual, of the type of person whom he considers most effective in sales training work. What characteristics would this individual probably have?
10. "In every organization looking forward to the expansion and growth of business, there is a need for the development of leadership. The more the people in any organization individually show growth in leadership the more likelihood there is that the company will rise in stature and display the greatest leadership in the industry. The future of the business depends upon such development.

    "In order to stress leadership, we developed a program of training

that is much more comprehensive and much broader in its concept than most sales training programs. Then, instead of assembling a large staff of professional trainers which might be needed to put 1,500 men through the sales training program, we tried to do a professional job in the development of a comprehensive guide for instructors, and then made the whole program available in such a way that the Regional Managers could carefully select men who had capacities for leadership and give them the responsibility of doing the training in local groups. As a result, we do not need a large staff in the home office for conducting the sales training program. Regional Managers have quickly grasped the opportunity to direct training activity in their areas. Certain responsibilities were assigned to the Branch Managers. Selected men were assigned to lead the various groups around the country. At the present time we have 1,650 men enrolled in 225 cities, who are meeting each week for 21 weeks. Leadership in the Sales Organization has shown up in many individuals. Men who previously had little chance to excel came prominently to the front in conducting classes in training. Several recent promotions have resulted."

Characterize the type of organization here used for sales training. What are its advantages for training purposes? What are its weaknesses? Have these weaknesses been overcome in this particular instance?

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Chapter XXI

DEVELOPMENT OF A TRAINING PROGRAM

THE development of a training program is a continuous process. Programs evolve over time, and particularly so, if the executives in charge believe in the virtues of experimentation. In a developing field, methods and procedures, also equipment, may soon become obsolete. The opportunities for doing a better job are enhanced and alert management will realize upon them. For instance, the wire recorder has been used effectively in recent years as a speech training instrument. Analysis of recorded sales presentations has become an effective training aid. Training programs are under continuous development, but for purposes of exposition we must think about the beginnings of a program and, particularly, programs for initial training. While the steps necessarily taken in program development do not differ substantially as between initial training and retraining of experienced salesmen, both the program content and the manner of presentation may be markedly dissimilar. For the present, attention will be focused on program development for the training of beginners.[1]

Steps in Program Development

Greater attention to selection and training of salesmen is usually an outgrowth of a recognition on the part of top management of a basically unhealthy condition evidenced by high turnover, low morale, unsatisfactory earning power, and unsatisfactory customer relations. Usually, something has been done by way of training, but not

[1] For detailed information on the training programs of various concerns, consult the following: P. H. Nystrom (ed.), *Marketing Handbook* (New York: Ronald Press, Inc., 1948), pp. 1138–44 (Swift & Company); "Foster Soap Company," *Michigan Business Cases* (Personnel Management Series, Bureau of Business Research, University of Michigan, No. 4) (Ann Arbor, 1934); Harry R. Tosdal, *Problems in Sales Management* (New York: McGraw-Hill Book Company, Inc., 1939), p. 609 (Scarborough Manufacturing Company), p. 618 (Northedge Insurance Company); National Industrial Conference Board, Inc., *Training Solutions of Company Problems* (Studies in Personnel Policy, No. 22) (New York, 1940), p. 2 (Armstrong Cork Company), p. 11 (Chevrolet Motor Company), p. 26 (Aluminum Company of America), p. 29 (The Hoover Company), p. 42 (H. J. Heinz Company), p. 51 (Westinghouse Electric and Manufacturing Company), p. 62 (International Business Machines Corporation).

enough, and the right methods have not been used. Very few companies, large ones at least, start from scratch on the development of training programs. It is usually a question of review and reorganization to improve existing methods. Nevertheless, for purposes of exposition, the steps necessarily taken, perhaps over a considerable period of time, will be noted and commented upon at some length.

1. Determination of basic objectives.
2. Determination of organizational structure for handling the training problem.
3. Assignment of responsibility for program development.
4. Preliminary analysis of conditions affecting the training problem, both in the home office and in the field.
5. Conduct of research.
6. Determination of specific objectives.
7. Determination of program content.
8. Selection of methods.
9. Evaluation of results.

Determination of Basic Objectives

As a first step, either in the initiation of a program or its later reorganization, deliberation on the part of top executives on basic objectives of a training program is a necessary preliminary to action. The question, "What can we expect from such a program?" is a reasonable one, and the conclusion reached after discussion will largely dictate the assignment of funds for training purposes. Basic objectives are suggested by the conditions which prompted more attention to selection and training. What is needed is a full realization by people in positions of authority of the conditions which prevail, the possibilities of improving them, and the basic objectives which may be attained by such action.

Determination of Organizational Structure

Decisions must be made in reference to the establishment of an organizational unit to handle the training problem and where it should be placed in the organizational setup of the concern. As noted previously, it is likely to be placed either under the vice-president in charge of sales or sales manager, or the head of the personnel department. Decisions must also be made on the functions to be performed by the department—in particular, whether it is to function only in a staff capacity or whether line responsibilities are also to be assumed. The structure of the department itself must also be determined. This is a question of the extent of specialization in function provided for within the department.

In one particular instance, control over the selection and training of salesmen is vested in a vice-president in charge of sales. He acts as chairman of a training committee, composed of major executives, which is given responsibility for matters of policy. Under the vice-president is a department of sales personnel headed by a director of sales training. As a part of his executive responsibilities the director is chairman of a committee composed largely of men in his own department but also of men from the personnel department, for purposes of cross-fertilization and liaison. This lower level committee works on questions involving minor policy, program development and execution, and effects co-ordination within the department.

Assignment of Responsibility for Program Development

While the immediate responsibility for program development is likely to be placed upon some particular individual, it is a group effort in which many people are likely to participate. It must be if the experience and training of company executives are fully utilized to solve the many and difficult problems involved. In the initial planning stages, while basic objectives are being determined and the broad outlines of a program are under advisement, participation by company executives may be very helpful. Not only is the experience and thinking of executives brought to bear upon training problems, but also their interest is aroused and their full co-operation may be secured. Unless top management in some way is made to realize the importance of training, a sympathetic attitude toward it is unlikely, sufficient funds will not be budgeted, and the work will be hampered. Some degree of participation in the planning stages, followed by information as to progress and the opportunity to check up on results, will probably be sufficient to get the wholehearted support of top management, if those in charge of training do a good job.

It is likewise desirable to bring regional managers, branch managers, and sales supervisors into the planning work. Theirs may be the responsibility for actually carrying out the field training work. Much of the field research needed to determine the content of a program requires their full co-operation. Unless the program finally evolved is *their* program, as well as that of the home office, compliance with suggestions and co-operation in putting the program into effect may be lacking.

Preliminary Analysis

Both the determination of the specific objectives of a training program and of program content require considerable effort by way of research. Job analyses must be made in the field. An analysis of diffi-

culties encountered in selling may be viewed as indispensable for training purposes. In the home office, likewise, research must be done to assemble the factual information on company history, policies, and procedures, which form a part of training materials. However, before purposeful research can be carried forward, there is need for preliminary analysis and planning. The steps which follow in the development of a training program cannot be taken with assurance unless the situation of the company, in reference to selection and training, is fully known and carefully appraised. Some training materials are probably available but need review and, perhaps, revision. The needs of training, and in what areas, can, in part, be secured by talking with company executives, branch managers, supervisors, and salesmen. Some indication will thus be secured of the task ahead of securing their interest and co-operation in a training program.

As a result of a preliminary analysis, some tentative conclusions will be reached in regard to what needs to be done by way of research before questions of objectives, program content, and methods can be answered. Also, a plan of procedure, including timing, can be evolved. A lack of preliminary analysis and planning, in contrast, leads to haphazard effort and general ineffectiveness. The chief danger is that ideas will become too crystallized, particularly on program content. Preliminary judgments are often accepted without sufficient verification, which comes only from carefully planned and well-executed research activity.

Conduct of Research

Through preliminary analysis, largely of a deductive nature, some conclusions will be reached as to the research necessary for the development of a training program. A suggested procedural pattern for organizing research is as follows:[2]

1. *Determination and Definition of Marketing, Personnel, and Public Relations Policies (marketing policies to include those in reference to sales, distribution channels, pricing, service, and customer relations).* The objective of this research effort is to establish a firm foundation for training on company policy. Orientation, through learning company history and company policy, gives the trainee a sense of belonging to an organization, of being an essential part of it. More important, if the policies are sound and farsighted, a knowledge of them will help to create the proper attitude on the part of the salesman toward the company, its products, and the job of selling. Policies

[2] This suggested pattern of procedure is in part adapted from Metropolitan Life Insurance Company, Policyholders Service Bureau, *Training Salesmen* (New York, 1949), p. 13.

must be known and their importance impressed upon the salesman, for he is in part responsible for their administration.

Training personnel, when attempting to develop a program, may find that policies have been formulated and, therefore, that training materials of this sort are at hand. It is more likely, however, that some policies are being followed which have not been stated in writing, and that other matters, subject to policy formulation, have never been threshed out by executives. As a consequence, it is likely that work on questions of policy will have to be carried forward.

2. *Preparation of Job, Time, Difficulty, and Attitude Analyses.* Job analysis is the backbone of any training program. Through research activity, it is necessary to determine what salesmen do, and, significantly, how they do it. Nor is this enough, for further analysis and experimentation may disclose how the tasks of salesmen can be accomplished more expeditiously and more effectively. It is a question of discovering how selling tasks are accomplished, usually by the most successful salesmen, and then of determining the most effective practice in the performance of each task. Training material on "how to do it" is thus a composite of best practice. It does not represent the practice of any particular salesman. Nor is it stable over long periods of time. Companies with sales-training programs make periodic studies of their salesmen's activities and responsibilities. Both product lines and field conditions are changing constantly. Job analyses and training materials must change with them if a training program is to continue to be effective.

The problem of determining what should be done during interviews with prospects is one of relating what is said and done in a large number of interviews to the volume actually sold in each. Obviously, this is a multi-variable problem and, therefore, a difficult one to solve. Certain variables may have to be held constant in order to measure the effect of others. For instance, the volume sold is in large part a function of the size and type of dealer being solicited. So this variable must be taken into consideration before the effect of others can be measured. In addition to type and size of customers, other variables are waiting versus selling time, what the salesman does to discover the buyer's needs, the appeals used to induce purchase, the dealer's rejoinders and how they are handled, the use of demonstrations and samples, the use of promotional materials, the character and arrangement of effort on different products, at what stages in the interview the salesman takes the initiative, the checking of stocks, and by whom. While not minimizing the difficulties involved in isolating the effect of each factor, careful research work may provide evidence that attention to one factor, such as checking the dealer's stocks or the use of a demonstration, will materially influence sales. Research of this general char-

acter holds much hope for providing useful training materials on how to sell and for control over salesmens' activities subsequently.

Management attempts not only to break down the job for purposes of training, but also to time the various activities so that instruction can be given in time utilization. While time studies of salesmen's activities are not common among business concerns, in certain instances they have been very productive of improved practice. Through action based upon time studies, not only has the time taken to perform certain activities been reduced, but also time usually wasted has been utilized for productive purposes, such as stock checking, preparation of reports, and the like. Time is a salesman's greatest asset—the raw material out of which sales and thus earnings are made—therefore, attention to its use should be a part of every sales training program.

In addition to job and time analyses, analyses of the difficulties encountered by salesmen are often prepared for training purposes.[3] One authority said, "If the analysis of duties provides the skeleton for the whole job analysis, it is the analysis of difficulties that provides the meat of the training program. . . . Finally, it will be seen, that whereas the activities of the salesmen determine the content of the training program, it is the difficulties that prescribe where emphasis shall be placed and how relative values in the curriculum shall be established; in short, how the skeleton shall be covered.[4] Difficulties are simply the problems encountered in selling work. Often younger salesmen do routine things well but are at a loss in the face of problems which would not perplex an older salesman. We say that they lack experience, and, therefore, may not be prepared for emergency situations. Training material based upon the difficulties commonly encountered gives them experience, somewhat synthetic perhaps, but nevertheless they will not be entirely at a loss when these difficulties arise on the job.

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[3] "The first step taken by the sales research department was the making of a complete analysis of the work of the salesman. This was done by three men, of whom two had little sales experience previous to that time, but were trained investigators, while the other was an outstanding supervisor with marked sales and analytic abilities. The study was twofold—a difficulty analysis and a duty analysis. A list was compiled of the difficulties encountered by forty of the newer and weaker salesmen in representative sections of the country. This list was secured by observing the work of the salesmen and by asking questions. Although the selling job was not a difficult one, a total of 165 difficulties were listed. The solutions to these difficulties were secured by interviewing more than forty of the most successful and experienced salesmen in various sections of the country and observing their selling methods" ("Foster Soap Company," *loc. cit.*).

[4] Saul Poliak, *Rebuilding the Sales Staff* (New York: McGraw-Hill Book Company, Inc., 1947), pp. 253–54; for a detailed classification of the difficulties encountered in selling drug products see, James H. Davis, *Increasing Wholesale Drug Salesmen's Effectiveness* (Columbus: Bureau of Business Research, Ohio State University, 1948), pp. 104–7.

Interestingly, for most selling jobs, difficulties or problems in selling can be discovered through interviews with relative ease, if a friendly relation can be created between the salesmen interviewed and the interrogator. New salesmen, in particular, like to talk about the difficulties which they are having. Osborne said, "Experience has indicated that, ordinarily, about thirty interviews bring out just about all the difficulties that have real significance. Many perplexities and complications will have been repeated during these talks, and the total list may run into the hundreds; but *new* obstacles are seldom reported after those first thirty salesmen have been thoroughly questioned."[5] Apparently, further interviews would only be necessary to be sure that the statistical sample had both representativeness and reliability.

In situations in which sales depend very largely on the ability of sales representatives to solve the problems of their customers, problem solutions, if recorded in detail, furnish excellent training material. Often such material is accumulated on the sales of industrial equipment, office equipment, and other installations. Someone has been able to see through to a final solution and has perfected a system for doing certain work, perhaps at reduced cost, for the purchaser. After a thorough study of instances of machine application to jobs, the trainee may be able to work effectively when he finds similar conditions of need on the part of his potential customers.

Research on attitudes of employees has expanded greatly in the past few years. Most of it is directed toward industrial workers, but attitudinal research, as it has come to be called, has important applications to the task of sales training. If, through such research, it can be determined whether salesmen have accumulated irritations because of company policy or operations, whether they lack confidence in the company's products and/or services, and whether they have an incorrect attitude toward their profession, the knowledge so gained is of significance and can be used in a number of ways, among them for training. If a certain unfortunate attitude has become habitual, the problem of changing that attitude is a most difficult one to solve. Here, retraining may be the answer, but the better attack for the long pull is through correcting those matters of policy, product, or operation which have been productive of unfortunate attitudes and through inculcating proper attitudes in trainees.

The reasons for attitudes are difficult to determine. It is the usual "why" question with which research people struggle. More often than otherwise, attitudes are the result of an accumulation of decisions which affect the salesman and his job, favorably or adversely. Perhaps they are the outgrowth of dominating or dictatorial leadership on

[5] David R. Osborne, *Salesmen for Tomorrow* (New York: Harper & Brothers, Publishers, 1945), pp. 81–82.

the part of the sales manager or other supervisory personnel.[6] But certain factors are likely to stand out more clearly than others and may point the way to corrective action. Research may also suggest the content of training programs for the development of correct attitudes by salesmen.

3. *Determination of Essential Knowledge and Skills Salesmen Must Have (to move products and efficiently serve customers in accordance with established marketing policies).* On the basis of the studies previously made, conclusions must be reached on what knowledge, skills, and attitudes are needed if the salesman is to perform satisfactorily on the job. For instance, in reference to product knowledge, it is a question of what the salesman must know about how the product is constructed, what it will do for the purchaser, how it gets out of order and can be repaired in order for him to sell it effectively. Often too much time is spent in training programs on technical details of product and manufacture because the extent to which such knowledge is *actually* used in selling has not been determined. In reference to skills, it is a question not only of the skill as such, but the level of skill which is demanded by the job and whether it can be attained through training methods. Attitudes are much more vague than either knowledge or skills, but they are of considerable importance and should be determined in so far as possible.

4. *Determination of Specific Training Needs.* This step, which yields the final research product, is simply a recognition of the fact that what the salesman knows, thinks, and can do must be known before his deficiencies can be overcome through training. It calls for a classification of trainees by previous training and experience. Men in different groups require different treatment; for instance, experienced salesmen may require little else than product knowledge and an orientation to company policies. Also, very specific objectives may be in mind for the retraining of company salesmen. It is simply a matter of adapting the program of training to demonstrated needs.

Determination of Specific Objectives

The objectives of sales training were discussed briefly at the beginning of this chapter and should now be reviewed by the reader. At that point, consideration was given to broad objectives of a general character. Now we turn to more specific objectives which have become apparent after research work has been carried forward. In this instance, as in most, a dividing line between the general and the specific is an indeterminate one, but for purposes of exposition the dis-

[6] See Harry R. Tosdal and Ross M. Cunningham, *What Salesmen Think of Sales Managers* (Boston: Sales Managers' Club of the Boston Chamber of Commerce, 1942).

tinction is helpful. For instance, we speak of improving the salesman's effectiveness or his work habits as a general objective. To be very specific, this objective has to be broken down, for there are many things which may have to be done to attain improvement. General objectives are of little use in building sound training programs. In contrast, specific objectives, clearly and precisely stated, serve almost as a blueprint of program development.

As the result of research work, conclusions have been reached in regard to the specific needs of a training program. These can easily be restated in the form of specific objectives. Moreover, it is desirable to do so, because top executives must frequently be apprised of what training people expect to accomplish. The more realistically and explicitly this can be done, the more support and cooperation are likely to be forthcoming.

An illustration is furnished by the experience of General Foods Sales Division.[7] As a result of analysis, it was recognized that the company had salesmen, not primarily to sell, but to help the grocer sell more of the company's products to consumers. In answer to the question, "What can a salesman do to help a grocer sell more of our products to consumers?" the following conclusions were reached: "(1) Make a sales presentation of the product; (2) obtain a good shelf position for it; (3) display it either on the counter or the floor, where it will attract the attention of the consumer; (4) see that the grocer prices it competitively; (5) encourage the grocer to mention it in his advertising."[8] While these conclusions are stated in the form of duties which the salesman is called upon to perform, they can be restated as needs of a training program or as specific objectives. Obviously, they are needs only if instruction is required to obtain effective performance. In this particular instance, it was stated, "At this point we are pretty far along toward the accomplishment of our training mission. We know exactly why salesmen are important and what they can do to build our business. Incidentally, any part of sales training that does not help build a business will pass away quickly and without benefit of clergy."[9]

Content of Training Programs

No two programs will be exactly alike in content, even those of two companies which deal with much the same class of products. The principal reason for this fact is that they are an expression not only of product type, the market cultivated, and the extent of previous train-

[7] R. H. Moulton, "Sales Training," *Rebuilding the Sales Organization* (Marketing Series, No. 54) (New York: American Management Association, 1944).

[8] *Ibid.*, p. 47.

[9] *Ibid.*

FIGURE 18

BUILDING PRODUCTS MANUFACTURER*

(1) Major Activities of a Salesman's Job	(2) What the Salesman Has to Do	(3) What the Salesman Has to Know	(4) What the Salesman Must Learn	(5) How It Should Be Taught	(6) By Whom
INDOCTRINATION	1. Be enthusiastic in job	*a*) Background of company	*a*) Company history	*a*) Lecture and charts	District Headquarters and General Headquarters staff
		b) Position of company in industry	*b*) Importance of name	*b*) Lecture and charts	
		c) Company structure and operation	*c*) Divisional and departmental functions	*c*) Lecture and charts	
		d) Company policies	*d*) Company policies	*d*) Lecture and charts	
		e) Employee relationships	*e*) Employee programs	*e*) Lecture and charts	
SELLING MERCHANDISE	1. Be self-confident	*a*) Product knowledge	*a*) Manufacture of products	*a*) Lecture, films, and factory trips	DHQ staff
		b) Product applications and uses	*b*) How applied and where used Sales advantages	*b*) Demonstration, practice, application, and discussion	
		c) Competitive products	*c*) Good and bad features	*c*) Discussion and demonstration	
	2. Survey territory	*a*) Present customers and their purchases	*a*) How to make best & use of territorial analyses	*a*) & *b*) Locally	District management
		b) How to handle industrial building product analyses			
		c) Merchandising plans and prices	*c*) How to make best use of merchandising plans	*c*) Locally	District management
	3. Make calls	*a*) How to approach a prospect How to make a favorable impression How to gain attention	*a*) Basic principles of selling Importance of appearance, courtesy, and pleasant manner	*a*) Discussion and demonstration and practice	GHQ training staff

* Metropolitan Life Insurance Company, Policyholders Service Bureau, *Training Salesmen* (New York, 1949), p. 16.

FIGURE 18—*Continued*

(1) Major Activities of a Salesman's Job	(2) What the Salesman Has to Do	(3) What the Salesman Has to Know	(4) What the Salesman Must Learn	(5) How It Should Be Taught	(6) By Whom
SELLING MERCHANDISE—*Continued*	4. Develop interest Discuss customer's problems Observe customer's problems	*a*) Customer's business and operations	*a*) Basic principles of selling Planned selling	*a*) Discussion and demonstration Practice presentations	GHQ training staff
		b) How product will benefit customer	*b*) Importance of using benefits to gain interest of customer	*b*) Build product benefit lists	
	5. Build desire	*a*) Understand customer's problem How to express himself How to use visual selling aids How to make a demonstration How to keep control of interview	*a*) Basic principles of selling Importance of well-planned, orderly presentations How to use demonstrations to best advantage	*a*) Discussion and demonstration Practice presentations Practice demonstrations	GHQ training staff
	6. Overcome objections	*a*) Understand customer's problem Where product has solved similar problem Product knowledge Product application and uses Company policies and prices Company merchandising plans	*a*) Basic principles of selling How to avoid arguments How to handle irate customers How to keep the interview going How to use proof of benefits	*a*) Discussion and demonstration Practice presentations	GHQ training staff
	7. Ask for the order	*a*) When and how to "close"	*a*) Basic principles of selling	*a*) Discussion and demonstration	GHQ training staff

FIGURE 18—*Continued*

(1) Major Activities of a Salesman's Job	(2) What the Salesman Has to Do	(3) What the Salesman Has to Know	(4) What the Salesman Must Learn	(5) How It Should Be Taught	(6) By Whom
SELLING MERCHANDISE—*Continued*			Direct and indirect closing techniques How to "leave the door open"	Practice presentations	
		b) How to write order	*b*) Pricing, C.L., L.C.L., and truck requirements, routing, etc.	*b*) Locally	District management
INSTRUCT AND ASSIST DEALER TO SELL *OUR* LINE	1. Determine customer's needs and problems	*a*) What sales plans are available to best fit the problems	*a*) How best to use such plans	*a*) Discussion	*a*) Sales & promotion staff
		b) What sales promotional and advertising material	*b*) How best to use such material	*b*) Discussion	*b*) Sales & promotion staff
	2. Hold local dealer sales meetings	*a*) What meeting material is available What type of meeting to hold	*a*) How to prepare for local meeting What equipment is needed How to operate equipment How to conduct meeting	*a*) Discussion and practice meeting	*a*) GHQ training staff DHQ staff
		b) How to talk before group	*b*) Public speaking	*b*) Extemporaneous and prepared speaking Practice, discussion, and criticism	*b*) GHQ training staff
	3. Contact builders, architects, engineers, purchasing agents, and county farm agents	*a*) Plan reading	*a*) How to take off plans	*a*) Discussion and practice	DHQ staff
		b) Construction terminology	*b*) Glossary of terms	*b*) Discussion and films	

FIGURE 18—*Continued*

(1) Major Activities of a Salesman's Job	(2) What the Salesman Has to Do	(3) What the Salesman Has to Know	(4) What the Salesman Must Learn	(5) How It Should Be Taught	(6) By Whom
INSTRUCT AND ASSIST DEALER TO SELL *OUR* LINE—*Continued*		*c*) Agricultural construction *d*) Product knowledge (farm)	*c*) Types of farm buildings *d*) Use of product in farm construction	*c*) Discussion and films *d*) Discussion and films	
DEVELOP AND MAINTAIN GOOD PUBLIC RELATIONS	1. Determine best means of establishing good public relations	*a*) What constitutes good relations *b*) Where will public relations be most effective	*a*) How to make effective use of good public relations	*a*) Discussion and examples	GHQ training staff
	2. Have active interest in civic affairs and local organizations	*a*) What local organizations will be most helpful What activities will be most helpful	*a*) No training required	*a*) No training required	
	3. Make such talks as are requested and are proper	*a*) How to prepare and deliver an interesting talk	*a*) Principles of public speaking	*a*) Discussion and practice speaking sessions	GHQ training staff
	4. Distribute company publications or news releases of public interest	*a*) How to place publications and company news releases to best effect	*a*) How to cultivate local editors, radio stations, etc.	*a*) Discussion and examples	GHQ training staff (Sales promotion)
	5. Present good appearance Control self-conduct	*a*) Ordinary decency and accepted social standards of conduct	*a*) No training required	*a*) No training required	
DEVELOP AND MAINTAIN GOOD INTERCOMPANY RELATIONS	1. Work harmoniously with office and with other divisions	*a*) How salesman's job ties in with offices *b*) How insufficient information hampers operations	*a*) What happens to an order, a credit advice, or a complaint report after it leaves him & *b*)	*a*) Discussion, charts, observation, practice & *b*)	District management

FIGURE 18—*Continued*

(1) Major Activities of a Salesman's Job	(2) What the Salesman Has to Do	(3) What the Salesman Has to Know	(4) What the Salesman Must Learn	(5) How It Should Be Taught	(6) By Whom
DEVELOP AND MAINTAIN GOOD INTERCOMPANY RELATIONS—*Continued*		*c*) How others react	*c*) Get acquainted and get along with people	*c*) Discussion	GHQ training staff
PLAN USE OF TIME	1. Determine exact location of each established customer	*a*) Correct phone and mail address *b*) Location in relation to other customers	*a*) Importance of eliminating excessive & *b*) travel between calls	*a*) Discussion	GHQ training staff and district management
	2. Determine how frequently each established customer should be called on	*a*) Importance of each account in over-all distribution picture	*a*) How to use 999 forms and territory analyses	*a*) Discussion	DHQ staff
		b) Proper day and time to call	*b*) Customer's habits Importance of regular schedule	*b*) Discussion	GHQ training staff
	3. Set specific objectives for each call	*a*) What you want to accomplish	*a*) Principles of planned selling	*a*) Discussion and examples of sales planning sheets	GHQ training staff
	4. Set aside a portion of each day or week for "missionary" work—development for future business and plans	*a*) What are the long-range objectives	*a*) How to evaluate and plan for long-term objectives	*a*) Discussion	DHQ staff
	5. Maintain orderly records of territory and accounts	*a*) What records are important	*a*) Importance of adequate records How to set up file system and how to use it	*a*) Discussion and examples	District management
HANDLE SPECIAL PROBLEMS: COMPLAINTS	1. Effect prompt settlement in manner fair to both customer and company	*a*) All the facts	*a*) How to listen, intelligently, obtain all the facts	*a*) Discussion	*a*) GHQ training staff

FIGURE 18—*Continued*

(1) Major Activities of a Salesman's Job	(2) What the Salesman Has to Do	(3) What the Salesman Has to Know	(4) What the Salesman Must Learn	(5) How It Should Be Taught	(6) By Whom
HANDLE SPECIAL PROBLEMS: COMPLAINTS—*Continued*		*b*) Service limitations of product *c*) How to correct cause *d*) Company policy on complaints *e*) Importance of converting complaining customer into satisfied user	*b*) Proper product use and application *c*) How to analyze and prescribe corrective measures *d*) Complaint report procedure *e*) How to protect company's interest and still retain customer's good will	*b*) Films and demonstration *c*) Discussion and demonstration *d*) Discussion and examples *e*) Discussion	*b*) DHQ staff *c*) DHQ staff *d*) District management *e*) DHQ staff (quality control) GHQ training staff
SPPI'S AND PRICE REQUEST	1. Initiate and handle	*a*) What they are and their differences *b*) When they are called for *c*) How to proceed	*a*) Requirements of systems and bulletins	*a*) Discussion and practice	District management
HANDLE REPORTS AND CORRESPONDENCE	1. Secure supply of any forms needed	*a*) What management requires What reports to make When reports are made *b*) Good business correspondence	*a*) *Why* reports are made How they help him do a better job *b*) How to answer inquiries How to answer letters of complaint How to write quotations How to correspond in concise manner	*a*) Discussion and examples *b*) Discussion, films, practice, and criticism	*a*) District management *b*) GHQ training staff District management

ing and experience on the part of trainees, but also of the attitude of executives toward educational processes. Not all executives are yet convinced of the efficacy of a thorough training for selling jobs. Some of them still apparently believe that the rigors of the "sink or swim" policy produce a superior brand of salesmen and that careful selection and training are therefore unnecessary. Although uniformity cannot be expected under the circumstances which prevail, most programs do follow a rough pattern. An excellent example is provided in Figure 18 (see pp. 626–31). It shows a complete chart-picture of the training program of a building-products manufacturer. It was undoubtedly the product of extensive research and a multiplicity of decisions as to policy and procedure.

An analysis of sales-training programs indicates that those which have been the result of careful planning are likely to include at least something in each of the following categories:

1. Information on the company's history and accomplishments; importance in the social and economic structure; standing in its industry; and policies—particularly marketing, personnel, and public relations policies.
2. Information on the company's products—composition, quality, variations to meet specific needs, methods of manufacture, packing and packaging, uses and limitations in use, common reasons for breakdown and how to make simple repairs.
3. Economic bases upon which the company's products are sold—application of the company's products to consumers' needs and desires, sales points in reference to needs, etc.
4. Instruction on how to sell effectively—how to make orderly presentations, meet common objections, use demonstrations, check stocks, develop goodwill, and perform other functions which must be performed during the sales call. Gradual orientation to actual field conditions through an opportunity to observe and practice suggested methods under the direction of a training staff member or sales supervisor.
5. Information on the company's activities which aid the salesman, either directly or indirectly—plans and organization for later training, supervision, advertising and other promotion, equipment, warranties, and service.
6. Training in reference to the market—how to locate, select, and evaluate prospects; how to get appointments, schedule calls, prepare itineraries, and utilize time wisely; distributors' functions, problems, costs.
7. Instruction on nonselling tasks of a routine nature—the proper handling of reports, inquiries, correspondence, quotations, and the like.

Each of these classes of program content will be considered in turn. It should not be inferred, however, that training should necessarily be given in this order. Training content needs to be spaced over

time, so it is more a question of when, during the program, training of a specific sort should be started. It is more than likely that both comprehension and retention will be increased if different parts of the program are interspersed over the greater part of the training period.

Company History, Present Standing, and Policies. The emphasis on these factors in training programs is partly for inspirational purposes, partly for informative purposes. Although it is frequently overdone, inspirational content is needed in any program. Anything which can be done to improve the morale of salesmen will be helpful, for the sales process necessitates meeting constant resistance by prospects. Unless the salesman develops a deep conviction of the essential dignity of his profession and its intrinsic worth in the broad scheme of a free enterprise society, he is likely to become discouraged and his effectiveness is thereby lessened. The importance of this question of morale cannot be overstated. During initial training, it is inculcated largely by contact with executives who stress historical factors, present position, and policies.

Most companies are the length and shadow of a particular man or group of men. Through his or their inspired leadership a company may have developed new products and new processes over the years which contributed greatly to a higher standard of living. Because its products met the needs and desires of consumers, a company may have expanded rapidly until it became an important factor in the economic life of the nation. There is an inspirational quality in the careers of business leaders such as George Westinghouse, Henry J. Heinz, and Thomas J. Watson, and in the development of the products and the growth of the companies with which they were or are so closely connected. Moreover, it is equally true of successful small concerns and their executives. There is something outstanding about every concern which has withstood the rigors of the competitive system. Company history which stresses the human equation and human qualities has a tremendous appeal, particularly to the younger men who are about to enter the sales force. If company history is reinforced by evidence of a sound current position and a high standing among competitors in the industry of which it is a part, the trainee will come to feel that he is becoming affiliated with a good company for which no apologies are needed. If this background material is taught understandingly, high respect for the company, its products and organization, will be engendered in the trainee and to represent such a concern will be considered an honorable calling.

The need for an understanding of company policies rests both on inspirational and informative bases. If policies are sound, farsighted, and in line with the public interest, a knowledge of them will help to create the proper attitude toward the company, its products, and the profession of selling. The informative aspect of training on company

policies is based upon two considerations, namely, that certain policies directly affect the salesman's position with the company, and second, that the salesman is called upon to administer policies in the field. Personnel policy, in particular, should be made known to all training groups. Questions of compensation, measures of performance, opportunities for advancement, employee benefits, and the like are all of personal interest to trainees and should not be neglected.

Public relations policies and marketing policies must, in large part, be administered by salesmen. In a very real sense, they represent their companies as well as themselves in local organizations and civic affairs as their professional connections become known. They may even be asked to distribute company publications and news releases and to act in other capacities as public relations representatives. As a matter of public relations, there is no better initial approach than the development through salesmen of a loyal, satisfied group of customers. They then become goodwill ambassadors for a company, and the area of favorable attitude toward a company and its products thus widens.

When difficulties arise in relations with customers, developed policies serve as guideposts or patterns of action for handling these difficulties in a mutually satisfactory manner. Opportunistic solutions are less likely if the salesman is well grounded in matters of policy. The salesman should have in mind what considerations dictated company policies as well as the policies themselves. *Why* policies were adopted is essential information in dealing with customers. The policy itself may appear arbitrary to the customer when applied to his particular situation unless the reasons behind it can be explained by the salesman. Through policy formulation, the judgment of major executives is in part being substituted for that of salesmen. Not only may their judgment be better, but there is an advantage in uniformity of action throughout the market.

Products: Composition, Manufacture, Uses. It would appear to be a truism that the salesman should have a thorough knowledge of the products which he sells. Yet many products are sold successfully without such knowledge, for it isn't needed or expected by the potential buyer. It is a matter of the degree of knowledge required for successful selling. It was suggested earlier that this could be ascertained through research. To furnish substantially more product information in program content than is required would needlessly encumber the training effort and should therefore be avoided. Yet it would unquestionably be unwise to furnish so little product training that informed buyers would lose confidence in a salesman's recommendations as to the type of product which should be purchased to meet particular needs, or in his statements as to what a product will do under given conditions of use. It is a question of striking a proper

balance in product training between two extremes, with a recognition that too little is more prejudicial than too much.

The recent tendency has been to devote less time to the technical details of manufacture and more time to consumer requirements and uses. While the salesman may well learn the nature of the raw materials used, something of production processes, and the extent of product inspection and testing, the principal reason for so doing is to gain an impression of product quality and dependability. The assurance, thus provided, that he will have good products to sell is of importance, but little time is required in the factory to get such assurance. The situation is admittedly different for high-value equipment which may even be produced to specifications. For such equipment, a thorough knowledge of machine design and the possibilities of manufacture to meet consumers' requirements may necessitate a long training period in the factory as a part of the training for sales. In other cases, for instance, the office-equipment field, the salesman is called upon to demonstrate machines as a part of the selling job. He may likewise be made responsible for installation and for the training of operators. Under such circumstances, the salesman must secure sufficient knowledge of the products, what they will do, and how they are operated during the training program to handle work of this character satisfactorily.

Information on competitive products is often included in training programs. For instance, one company prepared a manual for training purposes which compared, on identical bases, its major product with those of three leading competitors. In highly competitive selling, the salesman is forewarned if he knows the strengths and weaknesses of competing products. With this information at hand he is in a better position to emphasize the strong points of his own company's products. While it may not be considered good tactics to criticize competitors' products, still a knowledge of them cannot fail to be helpful.

Finally, it should be observed that a knowledge of where to secure product information readily is the next best thing to having it in mind. In reference to technical products, it is almost impossible to keep all significant data in mind, nor is it expected by the potential buyer. Manuals, trade publications, catalogues, and promotional material are provided by many companies and these are used both in training and later in the field. What information they include and where they are available should be a matter of instruction in training programs.

Economic Bases of Sale and Purchase. Certain parts of the training program should be sharply focused on what has been called the sales proposition. It is a question of the economic bases upon which the seller can appeal to the buyer. These appeals must be based upon buyers' needs and desires—in other words, upon their possible reasons for

purchase. Therefore, the training program should lay considerable stress upon the conditions under which individuals or other business concerns may be interested in the company's products. The old admonition that the salesman should put himself in the position of the buyer suggests the necessity for a sound sales proposition—one which is defensible on economic and social grounds.

Program Content on How to Sell. Training programs differ widely in their content on the work of the salesman during the interview with the prospect. While all would agree on the importance of product and market information as a prerequisite to effective performance in selling, there is more difference of opinion as to the need of training in salesmanship. Some people believe that if, in the selection process, attention has been given to ability to think clearly, speak effectively, and affect people favorably on first acquaintance, little instruction is needed on the conduct of the interview. These people are now in the minority, for most training programs include something on how to sell. Usually instruction is given both at the training center and in the field, and the two are often interspersed over the training period. In some programs, actual selling work precedes formal training. The theory behind this procedure is that the trainee should sense the difficulties of selling through actual experience to put him in the proper frame of mind to accept and profit by later instruction. Some field experience should be given either before or during the training program, for interest and motivation for learning are thereby increased. Furthermore, training in the location and under the natural conditions of the job is more productive than training in the classroom, although each has its place in the training program.

Training on how to sell can be carried forward in a number of different ways which, for discussion purposes, will be grouped into two categories: training in the classroom, and training in the field.

1. Training in the Classroom. The materials presented in the classroom on how to sell may be classified into three broad groups, namely, (*a*) an adaptation of those usually found in books on salesmanship which emphasize principles, (*b*) standardized presentations, and (*c*) case materials on actual sales situations encountered by the company's salesmen, which serve as the basis for practice selling by trainees. Most readers will be familiar with the content of courses in salesmanship. The procedure has been to break down the sales interview on the basis of objective and then to adduce the principles which apply to the performance of each part. While the breakdowns suggested by different writers vary substantially, there is usually something in regard to the approach, arousing interest, creating desire, overcoming obstacles to sale, getting action, and closing the sale. While something of this character will be helpful in the training program, it should be carefully adapted to the specific situation in which

the trainee will ultimately find himself in the market. "Customarily, there is inadequate recognition of the fact that the great bulk of sales transactions are of a repeat nature—that is, transactions in which the buyer and the seller have had previous buyer-seller relationships which color and may condition the nature of the selling approach. . . . In salesmanship courses the mere rehash of texts and the use of stereotyped lectures or text readings are not likely to achieve desired results."[10] If the principles of salesmanship can be related to the situations which the salesman will subsequently meet in the field and the work he will then be doing, training on them will improve the training program.

In the sale of some products, particularly insurance, standardized sales presentations have had wide and apparently effective use. The procedure is to discover how the most successful salesmen present the company's products and then, through careful study, to develop a presentation which includes the best features of all these presentations. Later the presentation is tested and modified as experience with it dictates. It then becomes a consensus of what major sales executives think should be said to the prospect. A number of talks may be developed for different types of prospect; perhaps one which starts in a particular manner and then proceeds along different lines depending upon some indication of the prospect's needs or expressed attitudes toward the product. Policies differ in regard to the pressure placed upon the salesmen to use the talk. They may be instructed to use it verbatim on all prospects, or they may be allowed to use their discretion. In any event, as a matter of training, they are expected to learn standard presentations and demonstrate their ability to use them. As a part of the program content, not only the presentations themselves, but also the reasons for their use and evidence as to their productivity in creating sales volume, are stressed.

There is much difference of opinion on standardized presentations, or "canned" sales talks, as they are often called. The life insurance companies have advanced proof based upon experience that salesmen who use them make higher performance records than those who do not.[11] It is reasonable to believe that salesmen of relatively low calibre who might be unable to present ideas in an orderly way and in good language without direction, would do much better through the verbatim use of a standardized talk. All people who present ideas over and over again, as do salesmen, inevitably form habit talks. Perhaps in the light of this fact, it is preferable to be sure that the salesman gets the right ideas in the proper sequence in his sales talk *initially*, before

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[10] Charles F. Phillips (ed.), *Marketing by Manufacturers* (Chicago: Richard D. Irwin, Inc., 1946), pp. 423, 425.

[11] James A. Preston, "The Use of Organized Sales Talks," *Personnel*, Vol. VII, No. 4 (February, 1931).

he becomes habituated to less complete and less organized presentations.

Standardized presentations assume standardized products and similar needs on the part of the prospects. While it might be argued that insurance is *not* such a product and that the buyers' needs are many and varied, still the basic motivations for purchase which can be stressed in sales talks are few, very strong, and easily recognized. Moreover, the insurance companies often provide a number of talks and by so doing provide some variation based upon the type of insurance being sold, or the type of prospect and his needs. Also, some variation in the interview is recognized. In most other types of business, however, the need for variation in sales talks is greater and more confidence is placed in the salesman to appraise the situation during the first few moments of his call and adapt his remarks accordingly. Surely this procedure results in a less stereotyped approach to the prospect, and talks which are less artificial and better adapted to the salesman's personality. Only when the trainees are of relatively low caliber, the products are standardized, and the needs and motivations of buyers are highly similar, is the rigidly-adhered to, standardized presentation likely to be more productive than individualized presentations.

Much can be done to help the salesman develop his own presentations, in fact a large part of the training program is directed toward this end. Knowledge of products and of the economic bases of sale and purchase form the core of presentations. With this knowledge, together with an orientation in salesmanship, trainees may be asked to prepare their own presentations. These, submitted either in written form or orally in practice sessions, can then be subjected to the critical judgment of executives who participate in the program. Suggestions for improvement can then be made, and the process can be repeated for other products or types of buyer. The use of the wire recorder is helpful, for the trainee can then hear his own presentation and evaluate his performance. As a result of this process, each trainee may develop presentations which include the essential elements but still are an expression of his own thinking, personality, and language habits.

Case materials based upon actual experience of a company's salesmen are often used very effectively as program content. Such material does not have the synthetic quality of assumed situations. The question to the trainee, "What would you do under these conditions?" is a most realistic one. He is asked to apply what he has learned to solving typical problems of the sort which he will later encounter in the field. The plan followed by a floor-covering manufacturer is illustrative of this sort of procedure.

The practice-selling sessions are designed to be useful in three ways: to review the material presented during the week in the observation visits, to translate that material into sales language and to help in the development of individual selling ability and technique. The atmosphere of the meetings is informal and filled with discussion which is characterized by its frankness and objectivity. The leader . . . describes a specific sales situation that will involve the material of the current observation program. The group is given about five minutes to prepare their approach to the sale. One trainee is selected as the customer and one as the salesman. The customer seats himself at a desk in the front of the classroom; the salesman enters, introduces himself, and the sale begins. Over a period of time the men have become accustomed to the technique of being a customer so that they neither offer unreasonable resistance or give too ready an acceptance of the product. The balance of the trainees take detailed notes in preparation for the ensuing discussion.

When this demonstration sale reaches a natural conclusion or is stopped by the leader, the salesman has the first chance to analyze his job performance . . . all the trainees have the opportunity to contribute constructive criticism . . . At times, without waiting for discussion, one of the trainees is asked to take over the same situation and criticize by demonstration of improved performance. When the situation has been completely explored, the leader summarizes the thinking and turns the attention of the group to another sales problem. *The method has the positive value of allowing the trainees to see how each week's block of information takes on life as it flows into the sales process and the training procedure does not lose touch with reality* [italics added].[12]

Practice selling sessions of this character, if handled effectively, develop interest and enthusiasm in the trainees. They induce active thinking on the problems of presentation and the procedures which may be used.

2. Training in the Field. While a stout defense can be made for practice-selling sessions in the classroom, they are not a substitute for training in the field or on the job. They are more supplementary than substitutional. Training in each location possesses certain advantages. Surely the classroom has the handicap that it is not the natural setting of selling activity. There is no potential buyer present, nor are the surroundings the usual ones. On the other hand, training men in a group with all of its advantages, including superior teaching personnel and lower cost, cannot be accomplished on the job. If such sessions can follow closely after training in the field, or even observation of other salesmen in action, it will be particularly productive. In the illustration just given this was the practice followed.

During the last few decades, the emphasis on sales training location

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[12] National Industrial Conference Board, Inc., *Training Solutions of Company Problems* (Studies in Personnel Policy, No. 22) (New York, 1940), p. 9.

apparently has shifted from the field to the classroom and back to the field, but under more controlled conditions. It came to be recognized that observation was not learning, that the salesman observed often had bad selling habits as well as good ones, and, more frequently than otherwise, that he did not "teach" the beginner. Something else was needed, and greater emphasis was given to centralized training. As frequently happens, the shift to a new procedure for accomplishing certain ends probably went too far; at least, there appears to have been a reaction and again more emphasis is on training in the field. Now there are few training programs that do not have some "on the job" instruction. It varies in particular instances from a few calls with an experienced salesman to a formal program in which a trainer accompanies the new man until he becomes proficient in his job.

Another variation of training in the field is the one previously mentioned of interspersing field training with that in the classroom. Still another, used at times, is to have the trainee actually work in the sales organizations of customers. One manufacturer of floor coverings has its sales trainees work for a month in department stores selling both the company's products and competing products. As a matter of training, they begin to understand the problems of their future customers, realize more fully the extent and strength of the competition which will be faced later, and secure a better comprehension of the buyers' needs. They return to other parts of the training program, not only with more knowledge, but also with many questions which enliven the program from that time forward.

As an attempt to overcome the disadvantages of the trainee-salesman type of training on the job and still preserve its values, management has developed what might be termed the "trainee-trainer" type. Trainers are carefully instructed in a centralized location. Every effort is made to make them proficient in training others. Men are usually selected for these positions who have had a long record of successful experience and also the needed personal characteristics mentioned before. Their primary task is to determine and correct the faults of new men *before* faulty methods become habitual. The trainers may be stationed at branch offices where they are always available to the newer salesmen for counsel and advice. They accompany the men on their sales calls and demonstrate the correct procedure, permit trial by the beginner, point out his mistakes, and follow up until correct habits in the sales presentation are formed. This procedure is time-consuming and costly, but it is extremely effective.

Aids to the Salesman. During the training program, materials should be presented on the company's advertising, product manuals, catalogues, illustrated portfolios, and other such items; equipment, such as samples, models, display cases, films, etc.; the assistance which he can expect from supervisors and branch managers, or from product

specialists on special orders or particularly difficult individual accounts; sales conferences and conventions; warranties and service; and on later training. The fact should be repeatedly emphasized that the company works with the salesmen, that it is joint effort in which many others besides the salesmen participate, and that he can always rely upon full co-operation from those in the home office and branch office. This part of the sales training program can do much to instill a proper attitude toward the company and to improve morale.

Program Content on the Market. The material presented in relation to the market should be of at least two types: first, information on company experience in dealing with the market; and, second, on how to find, evaluate, and select prospects. This suggests that the home office can do much to aid the salesman in "discovering" his market, but that much work of this character must be done in the field, and that the salesman, through training, should be prepared to do it. A breakdown of past sales by type of customer, both for the country as a whole and for the specific territory in which the trainee is to work; if possible, the trend in such data over a period of years; what proportion of customers take various percentages of total sales; market potentials versus performance; and any other data which will indicate the nature of the market and the success of the company in supplying the market will all be of interest and value to the trainee. Often the company takes initial responsibility for furnishing customer and prospect lists and the itinerary by which these prospects can be most effectively reached.

Training in reference to finding prospects, their evaluation and selection for solicitation, is largely a matter of indicating sources of information. For instance, data on manufacturers of various products can be obtained from Thomas Directory of Manufacturers, available in libraries. Chambers of commerce may have useful information on demand units in the local market. In addition to sources of information, instruction should be given on ways to appraise prospects' potentialities for purchases, on how to utilize time wisely in view of differences in size and type of customers, on how to prepare itineraries, get appointments and schedule calls.

The programs of many companies include materials on such matters as their distributors' functions, problems, costs, and profits. If the salesman has a thorough appreciation of the economic position of the wholesalers and retailers who are or may become his customers, their importance as outlets for the products which he sells can be determined. Also, he is in better position to help them sell his company's merchandise to other concerns or to final consumers.

Nonselling Tasks of a Routine Nature. The company always expects a salesman to do some tasks of a routine character not directly connected with the selling process, such as call reports, expense ac-

FIGURE 19

BUILDING PRODUCTS COMPANY*

SALES-TRAINING SCHOOL

PROGRAM

FIRST DAY:		
9:00– 9:45	(*a*) Announcements (*b*) Welcome to school (*c*) Purpose of school (*d*) Introduce vice-president, industrial relations	Training director
9:45–11.00	"*History of Company*" (*a*) Traditional history and growth (*b*) Corporate organization (*c*) Introduction of division heads	Vice-president, industrial relations
11.00–11:15	Recess	
11:15–11:45	Speaker:	President
11:45– 1.45	*Luncheon* Speaker:	Chairman of board
1:45– 3.00	"*The Story of Product*"	Vice-president, production
3.00– 3:15	Recess	
3:15– 4:00	"*The Need for Salesmanship*"	Vice-president, sales
4:00– 4:15	*Introduction to Sales Training* (*a*) Selling profession	Training director
4:15– 5:15	1. *Analytical Approach to Selling* (*a*) *Plan* your presentation (*b*) *Check* your selling (*c*) *Use* and *re-use* what works for you	
	2. *The Steps to a Sale* (*a*) Attention (*b*) Interest (*c*) Desire (*d*) Action	Training consultant
	3. *Step I: Attention*	
SECOND DAY:		
9.00– 9:15	Review "The Steps to a Sale"	Training director
9:15–11:45	*Step II: Interest— Film No. 1* 1. (*a*) Creating real business interest (*b*) Use of benefits (*c*) Dealer benefits (*d*) User benefits	
(Recess at approximately 10:30–10:45)	2. *Building Benefit Lists*	
11:45– 1:45	*Luncheon* "The Company Finance Organization and Its Functions"	Controller
1:45– 5:00	*Step III: Desire* 1. (*a*) Importance of proof material (*b*) Kinds of proof material	Training director or consultant
(Recess at approximately 3:00– 3:15)		

* Metropolitan Life Insurance Company, Policyholders Service Bureau, *Training Salesmen* (New York, 1949), pp. 46–48.

FIGURE 19—*Continued*

THIRD DAY:		
9:00–9:15	Review Step III	Training director
9:15–11:45	*Conditions, Problems, Solution, Selling*	
	1. Importance of developing NEED	
	2. Use of questions to explore CONDITIONS	
(Recess at approximately 10:30–10:45)	3. Isolating the PROBLEM	Training director
	4. Finding the SOLUTION	
	(*a*) Specific benefits	
	(*b*) Use of proof material in support of claims	
11:45–1:45	*Luncheon*	
	"The Government Department"	Government department representative
1:45–5:00	*Step IV: Action*	
	(*a*) Summarize and ask for the order close	Training director or consultant
	(*b*) The double-question close	
	(*c*) The assurance close	
(Recess at approximately 3:00–3:15)		
	Handling Objections	
FOURTH DAY:		
9:00–9:15	*Review Objections Covered—Film No. 2*	Training director
9:00–11:45	*Handling Objections* (*continued*)	Training consultant
	(*a*) Use of questions	
	(*b*) "Sparring"	
(Recess at approximately 10:30–10:45)		
	Summary of Factual Selling	
11:45–1:45	*Luncheon*	
	"Public Relations"	Assistant to chairman and vice-president
1:45–3:00	*Personality in Selling*	Vice-president, industrial relations
3:00–3:15	Recess	
3:15–5:00	*Planned Selling*—Film No. 9	Training director
	(*a*) Managing your time	
	(*b*) Planning your interview	Training consultant
	(*c*) Use of check list	
FIFTH DAY:		
9:00–11:30	Testing	Training consultant
(Recess at approximately 10:30–10:45)		
11:30–1:15	*Luncheon*	
	"Employee Relations"	Vice-president, industrial relations
1:15–5:15	"The Philosophy and Functions of Advertising and Sales Promotion"	Industrial relations staff member
SIXTH DAY:		
9:00–11:00	Summary of Sales Training	Training consultant
11:00–12:00	"The Role of Research"	Vice-president, research
12.00–1:30	*Luncheon*	
	Closing remarks	Training director
	Announcements	

counts, handling of inquiries, correspondence, and so forth. Salesmen often rebel if these activities become too onerous. If such matters are a part of the program content, at least the trainee is forewarned, and both compliance and effective performance are more likely.

As a postscript to our discussion of the content of training programs and as an introduction to our next general topic of selection of methods, the reader is referred to Figure 19 (pp. 642–43), in which the week's program of a centralized sales training school is outlined in detail. Note the topics covered, the time given to each, and the position held by the instructor. In this centralized sales training school, the trainees of the various divisions of the company are brought together for a solid week of indoctrination, company history, company organization, and an intensive course in the basic fundamentals of selling. After this first week, the group breaks up into divisional classes in which training is carried on for an additional four-week period. During this period, the men are given a thorough instruction in the manufacturing processes; application and installation of products, including shop work or field work where they actually work with the products themselves; thorough instruction in the sales methods and techniques through which the products are merchandised; and instruction in the many ramifications of sales promotion and advertising. It will be observed that the week's training outlined in Figure 19 is only that part of sales training which the company believes can be accomplished best in a centralized location.

Selection of Methods

During the preceding discussion of program content, there was some reference to procedural methods in handling the program, particularly in regard to classroom versus "on the job" training. Also, in our previous discussion of the contribution of psychology to the solution of training problems, reference was made to the principles which should be taken into consideration in the selection of methods. This sort of thing is to be expected, for there is always some overlap between units of any attempted classification of subject matter. Therefore, although something has been said which pertains to the selection of procedural methods previously, we will now turn to more comprehensive discussion of this topic.

The success of a training program will depend not only on its content and objectives, but also, perhaps even more, upon the effectiveness of the methods used for imparting knowledge, creating attitudes, and establishing habits. While something will be learned by the trainee almost inevitably, despite the method used, there is a consensus that methods differ markedly in the degree to which they produce the desired results. Results are influenced by program content, by the

methods used, by the over-all ability of those who give instruction, and even by such factors as physical facilities for training work.

It has frequently been stated that there is much greater knowledge among business concerns of what needs to be done in training programs than of how to impart knowledge in such a way that training actually takes place. Many businessmen have been prone to believe that any of the traditional tools of instruction—lectures, tutoring, suggested readings, group discussions, demonstrations, or visual presentations—will do the job and, therefore, have not been sufficiently concerned about the question of method selection for particular parts of training work. The nature of the problem involved can best be understood by recourse to an illustration. Take, for instance, training in reference to the product—its composition, how it is manufactured and used. Training on the product can be given in a number of ways. The trainee could be required to read materials prepared with this particular purpose in mind. He could spend some time in the factory participating in actual manufacturing operations. In contrast, he could act as an observer in the factory. A film could be made of the manufacturing process and shown to trainees. Production executives could be asked to lecture before trainees, or a unit of product could be brought into the classroom, disassembled, reassembled, and explained thoroughly during the process. Which of these methods is selected depends upon many factors, and the net advantage as between alternatives must be determined by an attempt to measure results through reports, quizzes, formal written examinations, or, later, through performance on the job.

Location of Training. The methods of training salesmen used by 215 companies in 15 industry groups were determined in a study of the National Industrial Conference Board, Inc., made in 1938.[13] Of this group, 72.6 per cent used training on the job; 47.9 per cent, personal conferences; 19.1 per cent, group conferences; 19.5 per cent, personal letters; 39.5 per cent, sales meetings; 1.4 per cent, correspondence courses; and 36.3 per cent, company training courses. Only 0.5 per cent had no training at all. Some companies undoubtedly used many of these methods in conjunction, but the prevalence in use is nevertheless indicated.

The relative merits of home-office versus branch-office training have frequently been debated. At branch offices, training in respect to the market can probably be more realistic, training will in part be given by the person under whom the trainee will subsequently work, and the operations of the home office will not be disrupted to a like extent. The expense involved in training is likely to be less, for travel will be reduced, fewer additional facilities will be needed than for

[13] National Industrial Conference Board, Inc., *Personnel Policies Affecting Salesmen* (Studies in Personnel Policy, No. 4) (New York, 1938), p. 8.

centralized training, and instruction will be more individualized and thus more effective. Nevertheless, in centralized training, there is more assurance that the training will actually be done and that acceptable methods will be used.

Not infrequently, it has been discovered that performance was highly inadequate when responsibility has been left to the branches, and that the trainers neither knew the necessary subject matter nor how to train others. Therefore, training programs were instituted at the home office to train sales supervisors and branch managers in the content and methods of training. Under a decentralized plan, the home-office training executives are usually responsible for planning programs to be given in branch offices. To assure conformance, visits are made to branch headquarters, reports are demanded, and, in some instances, training supervisors are assigned to branches. While certain parts of the training program can be done as well or possibly better at the branch offices, it is doubtful whether training on company history and policies, on products, and, perhaps, on other parts of the program, can be handled as effectively as at the home office. As a result of this doubt, or, perhaps, conviction, many programs now combine training at both locations, perhaps a week or two at a home office-training school followed by training at the branches, in an attempt to reap the advantages of both locations.

Timing of Training. There are three principal questions of timing involved in the planning of a sales training program: first, how much time shall be given to field training as over against training in a centralized location; second, how much time shall be allotted to each part of the program; and, third, the question of initial versus later training of a more or less continuous nature, and retraining after considerable time has elapsed.

No precise answer can be given to the first of these questions. The division of time depends largely upon the nature of the product and the difficulties involved in the selling process. However, as a generalization it can be stated that if the product is highly technical, if its applications to buyers' needs present many and difficult problems, centralized training is likely to preponderate over field training because those parts of the training program which can be done best in the home office or the factory are of the most essential character. In contrast, for nontechnical products sold to the trade, sales training is likely to be largely, if not entirely, in divisional or branch offices because those parts of the training program which are most important for the sale of such products can be handled, at least reasonably well, in the field.

The answer to the second question must be secured largely through an evaluation of the essential difficulty of the materials which are to be presented, and from experience. Those parts of the program which

require only comprehension and retention of materials can be handled with relative rapidity. Other materials are designed to inculcate correct attitudes toward the company and its products. Correct attitudes must be nurtured, and this takes time. Habit formation is by far the slowest process, and only a beginning can be made during the training program but something can be done in group discussions and practice selling sessions. Active participation is the key to successful instruction, but, if everyone in the class is allowed, even encouraged to participate, it is a time-consuming process. All the foregoing suggests is that a recognition of the objective sought, the essential difficulty of attaining it, and a knowledge of human limitations will be of great aid in apportioning time between parts of the training program.

Through experience, it is likely that training executives will reach reasonably sound conclusions on time apportionment. Information can be secured through observation or comment on the relative effectiveness of each part of the program. For instance, a field supervisor may assert that the new men simply do not know enough about certain uses of a product or the product itself. Evidence accumulates on the new mens' performance in reference to product, presentation, the market, routine duties, and the like. On the basis of such evidence, the content of the program and the time given to each part can be varied. It must be recognized that training is costly, and cost limitations imposed through budgets often dictate that an expansion of one part of a program means a contraction in another part.

The final question of timing is that of maintaining the proper relationship between initial training, later training of a more or less continuous nature, and retraining after considerable time has elapsed. One of the most common errors, in the past, was to assume that initial training, perhaps in a centralized location, was sufficient and that no further training in the field was required. Initial training must be followed by later training in the field offices or on the job with a gradual tapering off as the trainee becomes more proficient. The nature of habit formation suggests this procedure as the time usually spent in initial training is not sufficient firmly to establish effective habits of work. The methods by which training is continued vary. One concern holds a half-hour meeting each morning and a two-hour meeting each week for all branch office salesmen. Plans are outlined, problems are discussed, and helpful suggestions are made. In another case, a branch training supervisor is always available to salesmen for counsel and advice. If considered helpful, he may accompany salesmen on calls now and then for observation of the methods used in the interview and later criticism and advice. It is a process of gradual orientation and adaptation to the job through continued effort of management.

Training is a continuous process just because conditions of product

and market, and techniques of selling, change; and management is more aware of these changes and the need of adaptation to them than are individual salesmen. Even the best product information becomes obsolete with technological changes, and the greatest enthusiasm for the company and its products may be diluted by isolation over a period of years. Moreover, salesmen need to be reminded now and then of what good practice in selling is and how better performance can be achieved. The need for retraining is recognized and is provided for by most concerns. For instance, a floor-covering manufacturer brings salesmen back to the home office and factory in small groups every two years for an intensive one-week training period. An office-equipment manufacturer provides for a month's intensive training program after a salesman has been in the field from two to five years. While in training, his territory is covered by another salesman and all commissions are given the man being trained. Every five years thereafter the salesman is brought to the home office for additional training periods. Only in this way does the company believe that salesmen can become sufficiently familiar with new products and new methods of solving the problems of its customers.[14]

Techniques in Training. In order to select techniques wisely, it is necessary to have a knowledge of their strong points and limitations for the performance of particular tasks. An imaginative and resourceful person has plenty of opportunity to use his abilities in this field. Wise selection of training techniques depends very largely upon the ability of training executives to experiment with different techniques and combinations of them by type and by amount. While no attempt will be made to consider at length the possibilities and limitations of all the techniques in the training field, a brief comment will be made on those which are customarily used in training programs.

1. Lectures. There appears to be a consensus that lectures are relatively ineffective in sales-training programs. The reasons advanced are that the interest of trainees is not maintained, that they do not provide for audience participation, and that there is no way to gauge their effectiveness accurately in imparting knowledge or creating attitudes. Unskilled lecturers who have not prepared adequately or who speak too long are of little help in training work. Yet much of the criticism of the lecture method is directed at the manner of its use, rather than at the medium itself. Some people have the faculty, by reason of voice, appearance, clarity of expression, and enthusiasm, to arouse the interest of a group. Emphasis rightly placed, release of

[14] For surveys of the sales training programs of the Armstrong Cork Company, Chevrolet Motor Company, Aluminum Company of America, The Hoover Company, H. J. Heinz Company, Westinghouse Electric and Manufacturing Company, and International Business Machines Corporation see *Training Solutions of Company Problems, op. cit.*, pp. 62–72; also, International Business Machines Corporation, *Sales Training*, World Headquarters Building, New York.

tension or of boredom through humor, dramatic passages, and good summarization—all may be used to retain interest and facilitate the learning process. Demonstrations, visual aids, and interspersed short discussion periods are usually helpful. While lectures should customarily be not over thirty minutes in length, if the method is used skillfully an hour may not be too long.

There is no effective substitute for the lecture in certain parts of the training program. While people could be asked to read about company history, present position, and policies, the spoken word is probably more effectual than the written word. In part, attitudes are created simply by the fact that the trainee has seen and heard the company's top executives. For most salesmen, reading is not a good substitute for a well-delivered, informative and inspirational talk.

Notes should not be taken by the trainee during lectures, for attention is thus diverted. More often than otherwise, students try to take down too much of what the speaker says. It is a hurried process, during which many statements made by the speaker are neither heard in full nor fully comprehended. It is better for the trainee to give his undivided attention to the lecturer. Better results are probably secured if the lectures are outlined in advance and distributed for later study after the lecture is completed, or included in manuals with which all trainees are expected to become thoroughly familiar.

2. Group Discussions and Conferences. It might be well to distinguish between group discussions for trainees, practice-selling sessions, and conferences for the further training of experienced men. The first of these might be likened to a class discussion in college, in which materials are presented orally by the instructor, questions are asked and answered, and a general discussion follows. The second is similar to the first, but case materials are used and actual practice on the basis of cases is carried forward in the classroom.[15] The conference is more in the nature of committee session for training purposes, rather than for the formulation of policy or decisions on current problems. It also has some of the earmarks of the college seminar. Supervisory personnel or salesmen with experience, interests, and functions in common assemble for informal discussion under the leadership of someone of higher rank or, perhaps, the training director. The objective is to exchange experience and, through a general discussion, to improve the performance of each individual present.

These three types of discussion groups have some features and some advantages in common. The idea is to get a relatively small number of people with a similar level of training and experience together for the discussion of various questions suggested by the leader or by one of the group. Too great dissimilarity in training or experi-

[15] See pp. 674–75.

ence is undesirable, for the discussion may then be between only a few of the best-informed members of the group, while others become merely auditors. Ideally, the group should be small, thereby making possible frequent participation by each member. Participation, interest, and stimulation of and by others may be achieved, and all facilitate the learning process. This is the chief advantage of group discussion over the lecture method.

Group discussions for trainees have other advantages, too. There is greater opportunity than through the lecture method for determining whether the trainees are making progress. If, upon questioning, it appears that certain points are unclear, further attention can be given to them immediately. It may become apparent, in discussion, that certain trainees are behind the group and need individual instruction. This can then be given. The appraisal of individual progress for rating purposes can be done with greater assurance, for group discussions facilitate closer acquaintance with trainees. There is much greater possibility in small groups of taking the first steps toward formation of correct habits. These discussions are particularly effective in the development of the ability to analyze problems and to think clearly about possible solutions.

While group discussions have many advantages, they are time consuming and, therefore, costly. Moreover, as compared to the lecture method, they require more study, advance preparation, and, perhaps, even skill in handling. Expert leadership is uncommon and the advantages just mentioned of using this method are not secured in full unless leadership is at least reasonably proficient. A group leader must have a large fund of knowledge based upon training and experience and a presence which inspires confidence and respect. Patience, tact, self-restraint, a habit of listening to others quietly and attentively, and a sense of humor through which both tension and boredom can be relieved are required in abundance. Many successful sales executives are not good group discussion leaders because they lack the necessary deliberative approach.

A group leader must likewise be a diplomat, for there are always some members in a group who are a bit recalcitrant and must be controlled by indirection rather than by strong-arm methods. Some people seem to have a penchant for speaking too much, getting off the subject, and asking irrelevant questions. Perhaps such people should not have been selected for employment. Nevertheless, if the group leader finds them in training, he must be able to deal with them effectively and not allow them to hinder the training of the whole group. Finally, the leader should be a clear, incisive thinker, and should have great facility in the use of language, both written and spoken. Otherwise he will not be able to suggest solutions to problems and answer the questions presented by members of the group.

Advance preparation for group discussions is imperative, both as to the content to be covered and as to procedure. In conferences which are a part of the training program for beginners, the subject content will be some part of that previously discussed, particularly that included in items 3 through 7.[16] The subject content for conferences of experienced salesmen or supervisors is likely to include current problems relating to sales, supervisory, or service activities, or whatever the members of the group would like to discuss. Often an attempt is made in advance to discover what subjects would be of most interest to the group. In order to be sure that planning is done effectively and that correct procedures are used, guides for conference leaders in the form of manuals have been prepared by some concerns.

For instance, one of the oil companies has issued a 76-page manual on conference leadership. Its contents may be briefly summarized as follows:

1. Training and the Conference Method—gives background, use, and advantages.
2. The Conference Leader—gives functions, objectives, and methods.
3. Preparation for Conference Leadership—shows how to prepare and plan discussion.
4. Conference Procedure—shows how to conduct the conference.
5. Use of Questions—explains various types of questions, how to use and handle special cases which arise.
6. Chart Work—how to prepare and plan discussion.
7. Other Devices Used by Conference Leader—film and various other aids and their use.
8. The Leader's Part in a Conference—summary of essentials and personal rating list.[17]

When as much attention is given to procedure as in this instance, results from the use of the conference technique in training, if under capable leadership, should be excellent.[18]

3. Correspondence Courses. This technique has limited applicability in sales training, other than in situations where the trainees are widely scattered and training is not sufficiently important to justify substantial expenditures. Other methods and location of training are preferable, for the trainee then has contact with other trainees, salesmen, supervisors, or even company executives. The very fact of training in groups makes self-discipline in doing the work less necessary. Relatively few people can force themselves to do the work of correspondence courses, even though it is given in acceptable form through

[16] See p. 632.

[17] Metropolitan Life Insurance Company, *Training Salesmen*, pp. 39–40.

[18] As a general reference on the conference technique, see E. S. Hannaford, *Conference Leadership in Business and Industry* (New York: McGraw-Hill Book Company, Inc., 1945). As an illustration of a company manual, see Aluminum Company of America, "Manual for Conference Leaders."

the use of daily assignments, problems, examinations, etc. While much can be done to make correspondence course materials understandable and interesting through the use of effective writing, pictures, and charts, still study at home and in off hours is seldom productive. That it is better than no training all will agree, but it is not an effective substitute for other methods.

Correspondence courses have been used most frequently in continuation training and in the training of distributors' salesmen. They may be the only feasible way to get to distributors' salesmen. If the distributor can be induced to co-operate, perhaps by giving some incentive for taking the course offered by the manufacturer or through aid in its administration, favorable results may be achieved.

4. Observation and Tutoring on the Job. On the job training versus classroom training has been discussed at length previously. Here it is included again only for purposes of completeness, as it is a technique of training. Particularly for training on how to sell, it is used by most companies, sometimes as the only training method, but more often in a supplementary capacity. As a technique to induce habit formation along the lines desired by a company in the presentation of products to prospects, it has no superior.

5. Manuals, Textbooks, Bulletins, Etc. The word manual means a handbook or guidebook which can be used for ready reference when the occasion demands. Presumably, then, if used in the field, it should include information on everything the salesman might wish to know for the effective performance of his job. In one instance a sales manual was described as an 8½ inch by 12 inch loose-leaf binder in which the material is changed, as policy, procedure, or organizational changes make it necessary. The sales manual is not a promotional piece or a catalogue or a price list, but rather it is essentially instructional literature which aids the salesman in initial training and afterward on the job.

The manual usually serves a dual purpose—as a textbook during initial training and as a guidebook during later training. The most significant materials of training are included in synopsis form, in order that reading can follow lecture or discussion, and thereby the setting-in process, so necessary to retention, can take place. Review for later quizzes and written examinations is facilitated, and, through the whole process, the trainee may come to know thoroughly the materials covered. Still, on the job he will have the manual with him if it is necessary to refresh his mind on certain points.[10]

In addition to manuals, trainees are usually asked to read a considerable body of other materials during the training period. In one instance, during a training period of some nine months, the trainee was required to become familiar with twenty-two reference items in

[10] See Metropolitan Life Insurance Company, Policyholders Service Bureau, *Preparation and Use of Salesmen's Manuals* (New York, 1939).

salesmanship, advertising, business correspondence, retail merchandising, and a miscellaneous group—a number of which were full length books. Special booklets, bulletins, promotional materials, and the like are used in abundance in training programs. They provide instructional material and, in addition, the trainees, as future salesmen, should know of them and the purpose which they serve in the over-all sales program.

6. Training Aids. There are many devices which can be used in a supplementary manner to lectures and group discussions: among them, posters, charts, product models or the product itself, slidefilms and filmstrips, third dimensional projections, silent and sound motion picture films. Often they are called visual or audio-visual aids. Their essential characteristic for training purposes is that they are seldom used alone, rather, in lecture or discussion sessions, instructors use them to clarify or stress certain points. They give variety to a presentation, stimulate interest and attention, and facilitate an understanding of the materials presented and their retention. While apparently there is little by way of quantitative data to prove that understanding and retention are increased through the use of these devices, there is a consensus that their use has these results.[20] Simply through observation it is apparent that interest and attention are increased and that, when they are used, the trainee manifests a greater receptivity to instruction. These factors must be present, if instruction is to be successful in meeting its objectives.

Choice of training aids is governed by such factors as cost, appropriateness in view of the objectives sought, the subject matter to be covered, the ability of the instructor to use training aids effectively, and the type of group on which they will be used. One authority stated, "It is my judgment that none of these various forms of visual aids competes with any other, that each has a specific role to play, and that all could profitably be used in any training program. This is judgment based upon considerable observation in the field; it needs very badly to be backed up by more definite research and study."[21] At the ends of the range, there is undoubtedly little competition—for instance, between posters and sound films—but motion

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[20] "An experiment with the use of films in teaching general science, has found that (1) in terms of the immediate student achievement, the teaching technique employing the motion picture film is 20.5% more effective from the instructional standpoint than is the usual unaided presentation; and, (2) in terms of retention, the gain of the film group is 38.5 per cent greater than that of the group not using films." J. Sterling Livingston and Paul R. Ignatius, "Effective Use of Training Films," *Harvard Business Review*, Autumn, 1947, p. 639.

[21] Floyd E. Brooker, "Visual Aids in Sales Training," *Aids in Training and Selecting Salesmen* (Marketing Series, No. 65) (New York: American Management Association, 1946), p. 15. This conclusion seems to be verified by the fact that many concerns use practically all of the training aids in their programs. For instance, in one program 34 charts, 24 sound slidefilms, 2 silent slidefilms, 69 posters, 4 motion pictures, and 2 sound recordings were used.

pictures and slidefilms compete much more closely. The fact of motion may be important for the attainment of certain objectives, such as a knowledge of the manner in which a machine performs certain operations. The question must be answered whether one training aid can do the job at hand as well as another and in reference to cost. Slidefilms cost only one-quarter to one-fifth as much as do motion pictures and are very effective for some purposes. In view of the difference in cost, if either could be used, the results from sound motion pictures would have to be considerably better than from slidefilms to justify the additional expenditure. Nevertheless, variation of effectiveness within a type may be even more pronounced than between types. Even though a sound motion picture, everything considered, may be the most acceptable aid to achieve a certain training objective, a film with extraneous materials, needless narration, misdirected humor, improper sequence, or an inane approach, which offends and irritates adults, may be markedly inferior to a well-constructed slide presentation.

No attempt will be made here to discuss at length the possibilities and limitations of the various training aids. The range in the degree of complexity is wide. The relatively simple forms, such as posters and charts, to a large extent serve only one or possibly two objectives —to impart factual knowledge, or to give directions. The more complex forms, in contrast, such as sound films, have many possible uses, can meet many objectives simultaneously, and are well received by most audiences. Industrial operations can be visualized without time-consuming observation in factories, minute movements or objects can be enlarged for easier visualization, proper sequence in action can be shown, and the appearance of reality can be created to a marked degree. For instance, films can be made of sales presentations through which the trainee can see a salesman in action before a prospect in a natural setting. While the conditions may be simulated rather than real, the illusion of reality is present. Other training aids have their advantages, too. For instance, slidefilms are practical and inexpensive and can be made to illustrate almost any point which the instructor wishes to outline or emphasize. Moreover, they can be shown any desired length of time, in contrast to motion films, and questions can be asked and answered while the film is still before the group. With a thorough knowledge of training aids and their appropriateness in view of the objectives sought, wise choice can be made and training programs can thus be improved.

Few companies find it possible to handle the preparation of training aids without the employment of specialists, either directly or through retaining the services of other concerns. When work is let out to other concerns, the problem always arises as to the proper distribution of effort and influence between company personnel and outside personnel. There are certain types of work, such as the prepa-

ration of script and photographic work, which cannot be assigned to people without specialized knowledge and skills. In order to effect the proper relationship between training executives and specialists in training aids, some concerns have developed their own film-producing units. Only large concerns can afford to do so, however, as the investment needed for photographic equipment is substantial, and specialists may then need to be hired on a full-time basis. In direct contrast, many smaller concerns even find the cost of having films made for their own use almost prohibitive. They must resort to trade associations, consultants, universities, and governmental sources which have training films produced by such film companies as Jam Handy in Detroit and Vocafilm in New York for rental or lease. While these films are not specifically adapted to the training problems of a particular company, there is some possibility of adaptation through introductory remarks, the distribution of printed material, and later discussion.

The showing of films should be preceded by introductory remarks in reference to both content and its significance. To do so, the instructor must be thoroughly familiar with the film and what it is intended to accomplish. After the film has been shown, a discussion should follow with primary attention on the problems presented and the manner of their solution. Just as with lectures, an outline of the material presented should be prepared for distribution, preferably prior to the film showing. It will thus aid in the process of introduction and can later be used for reference and review purposes.

7. Examinations, Reports, Rating Materials. There are a number of excellent reasons for checking up on the progress of trainees periodically during the training program. First, the level of average understanding and proficiency attained by the group is a test of the program itself. Second, by periodic examinations and reports after each phase of the program is completed, training executives can ascertain the relative effectiveness of each and can then seek for improvement in content and method where they are most needed. Then, also, the relative proficiency attained by each trainee is of importance for purposes of selection and for individual instruction, if such action is required. A knowledge that examinations and reports are in the offing provides a powerful incentive to most people for work. Examinations should probably be both written and oral, announced and unannounced, as all types have something to commend them. The objectives of examinations and reports can be attained with a limited number of each, if correctly spaced over the training period.

Examinations and reports are only, in part, substitutional. Often the knowledge shown by each differs markedly for particular individuals. Some people do not perform well under the pressure of examinations but are able to write excellent reports. A knowledge of this variation is important for placement purposes. A report shows a per-

son's ability to organize material well and his ability to write clearly. For these purposes, examinations are of much less value. Therefore, both examinations and reports may be needed if the broad objectives of evaluating trainees and the program itself are to be achieved.

Finally, subjective evaluation of trainees is attempted much as in initial selection. As mentioned previously, some of the larger concerns which operate training schools do not select men initially for sales, production, finance, or other types of work but for work with the company. All individuals selected go through a training program and not until later, after a thorough evaluation of their abilities, are they selected for specific types of work. Further training of a more specific character then is given to each group. Under such conditions, selection continues during the initial phases of training. Even though men have been selected initially only for sales work, periodic rating is, nevertheless, useful because misfits can thus be isolated. Additional training can be given; or, if evidence accumulates that a trainee is misplaced in sales work but that he would be successful elsewhere in the organization, a shift can be made. Perhaps employment will have to be terminated.

Careful evaluation of the trainee's characteristics and capabilities is required and this must be in part of a subjective nature. Rating forms are provided on which department heads, instructors, conference leaders and whosoever else has come into contact with the trainees can rate them as soon as their training assignment is completed. The characteristics on which rating is given are much the same as those used in initial selection previously discussed. In most instances, however, it is likely that the ratings are much more exact, for the person who is doing the rating will probably have a longer acquaintance with the trainee than does the person who conducts an interview with an applicant for a position. On the bases of the ratings given, the training director may then have discussions with trainees, especially with those who are having difficulty, in which their strong and weak points are noted and remedial measures are suggested.

Evaluation of Results

While examinations, reports, and subjective evaluation by instructors can furnish some evidence whether a training program or any phase of it is meeting specific objectives, the broader questions of its effect on salesmen's performance, tenure with the company, relations with distributors and with the public, on competitive position, and ultimately on profits, remain unanswered. One might argue that if the training program is soundly conceived and carried forward, basic objectives as well as specific objectives will be realized. While this is undoubtedly true, management must attempt an evaluation of the sales-training program for purposes of future guidance—for instance, in the

allocation of funds. The question as to whether funds spent on training are well spent, in view of the results achieved, is always a pertinent one.

Now this question is a most difficult one to answer with assurance. Training is an educational effort and, like any such effort, the full results are neither immediately apparent nor measurable with exactitude. Even if results in the form of reduced turnover, increased sales volume per salesman, or a larger share of the potential market can be noted, it is not justifiable to impute these results only to sales training. The company may have become much more effective in selection, may have introduced a number of new products or improved old ones, or done a number of other things which affected performance, and this in turn may have influenced tenure. It is a multivariable problem and imputing a certain effect to a certain cause is doubtful procedure, unless a very considerable amount of analytical work has been done to prove the point. The analyst is on firmer ground to impute certain favorable results to that combination of activities included under the management of sales personnel. Favorable results indicate that management is doing a better job all along the line, but the contribution of the training program to the attainment of these results cannot be measured with any great exactitude.

The limitations on exact measurement just noted should not withhold an analysis of results. Training expenditures, like any other category, must be justified. There are evidences of effectiveness or otherwise, and these should be watched carefully. Do men get underway more rapidly and become high producers after training? Is the tenure of salesmen with the company increasing and at what rate? Is there an improved customer attitude toward the company and its products as evidenced by fewer complaints, returns, etc.? Is the company getting a larger share of the potential market, particularly in products with high profit margins? Questions such as these, if answered in the affirmative, do evidence a healthy condition which may in part be the result of sales training and its close counterpart, better selection. Experimentation with trained and untrained groups may yield more definite evidence of the results of sales training, but the difficulties of holding all other factors constant, as in any attempted experimentation in the social sciences, may cast doubt on the conclusions reached. Thus, reliance must principally be placed on deductive reasoning to justify sales training.

REVIEW AND DISCUSSION QUESTIONS

1. Contrast any two of the sales training programs referred to in footnote 1, page 617, on the bases of objectives sought, organizational structure for handling training, program content, methods used, and results achieved.

2. What procedures would you suggest for making difficulty and attitude analyses? How do the results of each type of analysis contribute to the training program? "Analysis, in this instance, comprehends more than discovering what difficulties and attitudes are present and listing them for future reference." Comment.
3. What are the principal objectives to be attained by providing for a thorough groundwork in company history, present standing, future plans, and governing policies?
4. Appraise the so-called "canned" sales talks. How do you account for the customary aversion to them in view of the fact that empirical evidence often supports their use?
5. What possibilities do you discern in testing to determine what methods of presenting material to trainees will be most effective for imparting knowledge, for creating correct attitudes, and for establishing productive work habits?
6. Since there is no good substitute for lectures in some parts of a training program, the problem becomes one of making such lectures as effective as possible. By what means or procedures may this be done?
7. The group conference has gained increasing favor in recent years as a sales training method. Why? How large a group can be handled effectively? What topics lend themselves particularly well to the use of this method?
8. Would you agree that the favorable results of sales training programs, like any educational effort, must largely be taken "on faith"? Can inductive evidence be developed which will demonstrate the results attained more conclusively?
9. Contrast the problems involved in training salesmen, on the one hand, and dealers, on the other. (See *Training Dealers*, Studies in Personnel Policy, No. 48, National Industrial Conference Board, Inc. [New York, 1950], particularly Sec. I.)
10. Note the unfavorable reactions to dealer training programs in *Training Dealers*, p. 22. How may these unfavorable reactions be overcome? Is it in part a question of more effective training of salesmen?
11. A famous college president, in a moment of disillusionment, said: "The most amazing thing about the educational process is the unbelievable capacity of the human mind to resist the introduction of knowledge." What does this quotation suggest in regard to sales training programs?
12. Refer to Figure 18 and attempt to answer the following questions:
    a) What type of salesmen is this program apparently designed to train?
    b) Is there any broad objective of sales training programs for which provision apparently has not been made in the program outlined or which, at least, has not been specifically mentioned?
    c) To what extent, if any, would you expect major executives to participate in this program and, if so, at what points?
    d) What specialists would you expect to find on the GHQ and DHQ staffs?

e) On what parts of the program would you anticipate the greatest emphasis?

f) Would you agree that no training is required in those instances so designated? Are there other spots in the program where training, although planned, might not be required?

13. The Coleman Company, a manufacturer of home heating and lighting equipment, recently announced that it was launching an ambitious $2,000,000, five-year dealer training program even though the mobilization effort might create scarcity in heating equipment and make aggressive selling less necessary. The Company plans to put no fewer than 1,600 dealers through its training program, called the "Coleman Heating Institute." In this Institute, dealers will be given the entire picture on design, sales, and installation of Coleman equipment. (See "Sales Training—Even Now," *Business Week*, March 17, 1951, pp. 114–15.) What objectives were probably in mind in instituting a training program of this character under the conditions then prevailing?

14. A project method of sales training was suggested in Sales Executives Series, No. 1, American Management Association, in 1924. It was defined as "a problematic act carried to completion in its natural setting." The rules suggested for guidance in the application of this method were as follows: (*a*) reasoning is preferable to memorizing; (*b*) training should be carried on in a natural, rather than an artificial, setting; (*c*) solution of problems should take precedence over statement of principles. Is this method, together with its rules, still conceptually sound? What does the method suggest as to actual procedures of training in "how to sell"?

15. One of the most common criticisms of sales training courses is that they are not sufficiently practical. Other criticisms are that they devote too much time to prestige-building activities, to technical details of production, and to sales psychology not tied in well with a company's sales problems. To some companies such criticisms have suggested the desirability of securing the reactions of trainees to the training program on the last day of each course, likewise at some later date—perhaps two or three months later.

    Are trainees in good position to judge training courses in reference to content, questions of sequence, methods of presentation? Should the comments made that training courses are not sufficiently practical be questioned? How much should the salesman know about the technical details of products? of production?

SUPPLEMENTARY READINGS

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Chapter XXII

SUPERVISION OF SALESMEN

THE discussion of the preceding chapter was largely concerned with the training of men who are just beginning their sales careers. This is training of a formal and concentrated character, in contrast to informal training which is carried on in a more or less organized manner in most concerns as one of the continuing functions of management. The objectives to be achieved are much the same in each instance. They are to *enhance* the salesman's skills, to *increase* his basic knowledge, and to *create* the proper attitude on his part toward the company, its products, and the profession of selling. Much of the day-to-day activity of sales executives is directed toward these ends. It is necessary because products and markets change and the nature of the selling task changes with them; also progress is made in selling techniques, and all necessitate further training.

This informal and continuing part of sales training is often designated as supervision of the sales force. However, there is no distinct dividing line between formal training and supervision. Some companies have no formal training program but supervise beginners closely for many months. Of course, sales training is one of the end results of this supervision. In other cases, supervision goes beyond the scope of formal training. They are both a part, nevertheless, of an educational process through which it is expected that improvement in performance will be achieved.

Supervision, as practiced in sales organizations, has objectives beyond training. In addition, there are aspects of enforcement and stimulation. It is often a matter of determining whether salesmen are following suggestions made in training work; for instance, whether they are following the action patterns in interviews which management believes will produce the best results. If not, positive action must be taken to secure compliance. In other cases, the objective of supervision may be to see that salesmen attain certain levels of performance—for example, make designated quotas. In this instance, enforcement yields to stimulation, for the salesman must be aided and encouraged in addition to being directed, if performance standards are to be achieved. Stimulation of this character is greatly needed by most salesmen, particularly in the early months, even years, of em-

ployment. Selling is a profession which is particularly subject to discouragement and frustration. Unless morale can be kept at a reasonably high level sales will not be maintained at high level. First, the questions which arise in field supervision will be considered. This discussion will be followed by one of salesmen's reports through which supervision is in part accomplished. The chapter which follows will be concerned with the means by which stimulation of the sales force may be accomplished.

Nature of the Problem

The essential problem is to determine that point at which a greater measure of supervision and control would be more than counterbalanced by negative factors, such as irritation and a loss of initiative on the part of salesmen and by the factor of cost. It is a question of a reasonable distribution of responsibility and authority between supervisory forces on the one hand and the salesmen on the other. While all people would recognize the need for supervision, stimulation, and some measure of enforcement by supervisory personnel, these can be overdone, and the consequences of so doing are lowered morale and less effective performance in the field. For instance, a salesman may say that he knows better than the home office how to handle a certain account; that he is on the ground, knows the dealer personally, and also the conditions under which the dealer operates. The salesman may be right, and sales supervisors wrong about the manner in which particular accounts should be handled. Perhaps he should be given more authority to operate in his own way on many particulars and to deviate from suggested modes of operation when, in his judgment, these modes do not fit the particular situation well.

There is too much difference in accounts and too much success in sales work proceeding from unorthodox methods to justify placing salesmen in roles similar to those of actors who follow their lines implicitly. This instrument of supervision should not be used so as to take all decisional power from the salesman, and thus stifle his initiative. Yet this would not deny the need of supervision and control, for it is recognized that salesmen often depart from managerial policies and from suggested procedures altogether too far for the good of their companies. For instance, itineraries determined in advance may not be followed closely and time may not be apportioned correctly between accounts with widely differing potentialities for purchase. Missionary work, necessary to maintain sales volume in later periods, may be neglected. Salesmen, particularly those working on a commission form of compensation, may take a shortsighted point of view and secure sales volume, even though current purchases in large amount may not be in dealers' best interests. In short, the immediate

interests of the salesman and the long-run interests of the company may be in conflict. *Supervision is the means by which a company induces its salesman to cultivate the market along effective lines.*

In relation to cost, it is a question of securing the proper ratio between selling and supervisory forces. Just as in manufacturing this problem arises but, in that instance, it is the ratio between what they often term productive and non-productive workers. Obviously, supervisory personnel are productive whether in selling or in manufacturing but whether their over-all productivity would be greater in actual selling or machine operation, rather than in supervising others who perform such tasks, may be open to question. For instance, if it is suggested that one salesman of each ten in a company's employ be used for supervisory work, it should be fully recognized that by so doing the "productive" sales force, that is, that portion of the sales force which actually contacts customers regularly, may be reduced by ten per cent. It is a question whether the addition of one salesman to each nine employed would be more or less productive in sales volume if the additional man was used in supervisory work or in actual selling work. The nature of the problem now becomes evident. *It is to secure a nice balance between sales and supervisory forces, both those in the home office and in the field—one which will achieve, over an extended period, the largest sales volume at lowest cost.*

Reasons for Field Supervision

The term supervision should be considered broadly as including training, enforcement, stimulation, guidance, and leadership. We are not concerned with supervision only in the sense of checking-up on the sales force or in other negative aspects. Those positive actions which management may take which will improve performance are likewise included. With this point of view in mind, the reasons for supervision of salesmen in the field will be considered briefly.

1. Supervisory personnel provide the avenue by which the thinking and decisions of top management pass down through an organization to the salesmen in the field. In small organizations, it may be feasible for the salesmen to talk directly and often with the sales manager or even with the president or general manager of the concern. In large corporations such personal contacts are out of the question and supervisors at different levels must then represent top management to those people whose activities they direct.[1] Obviously, unless

[1] J. K. Skillings, Manager of the Sales Promotion Division of The Texas Company, made the following observations in regard to the need for field supervision: "I don't suppose there is a sales manager alive who is not, deep in his heart, convinced that his company's sales problems would all be solved if only he were able to do all the selling personally. And I'm sure that in our own case, that would be true. But when you stop to consider that we have more than 47,000 dealer-customers

the ideas and decisions on selling methods and on the proper relationship with customers can permeate down to the sales force, and without too much dilution or change, top management is frustrated and does not perform its proper function. Management also has much to learn from people in the field and thus ideas and factual information can go in both directions through supervisory personnel.

2. Supervision in the field is needed simply because the work of training is not completed through training courses. Field conditions differ markedly from those encountered in the classroom. The technique of selling is too complicated for complete reliance on preliminary training in formal courses. Suggested activities, such, for instance, as analyzing a prospect's needs, which may look comparatively easy when discussed in the classroom, prove much more difficult in the actual doing, and the help of supervisors may not only be needed but greatly appreciated.

It cannot be assumed that salesmen will follow the accepted methods taught in training courses closely or that they will have no difficulties after the formal training is over. Often it is not enough to tell them what to do and how to do it once or twice. Frequent mention and strong emphasis is needed to secure full compliance. Bad selling habits may be unconsciously developed and become habitual, unless they are noticed by supervisors and corrected early in selling careers.

3. Not only weaknesses in the salesmen but weak links in the plan of selling may be revealed and corrected through supervisory effort. Often there is need for changes in assignments of territory or types or size of dealers to be cultivated. Perhaps a certain territory is sufficiently different from most others to merit a different approach in selling. In this connection, it must be remembered that plans made at the home office must necessarily be somewhat general as they are to be applied to all territories and, perhaps, to many types of customers. Some variations may be highly desirable for a particular situation. It is the function of supervisory personnel to recognize these differences, to suggest adjustments to higher levels of supervision, and then to direct salesmen if changes are approved.

4. Sales supervisors perform a necessary function in rating the men under their direction. There is continuity in the selection prob-

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in the service-station field alone, you see what the first headache is bound to be. We are immediately confronted with the problem of getting the determination, the clear thinking, and the sound selling methods that originate these plans down into contact with the man who is actually going to carry them out—the salesman. To do that, we have to work down through all these layers represented on our idea flow chart, each layer, in effect, as much an obstruction to the flow of ideas and plans as an elbow in a pipeline. Therefore, we need to supply an abundance of supervision, guidance, leadership; always remembering that this supervision must be productive and profitable. Only then can we *afford* it." "Developing Sales Supervision," *Sales Personnel Techniques* (Marketing Series, No. 39) (New York: American Management Association, 1940), p. 36.

lem just as in training. Particularly for new men in a company's employ questions of retention or dismissal or, perhaps, of transfer to some other type of position may arise, and no one is in better position to make an appraisal of a man than his immediate supervisor. Often supervisors are called upon to rate the men under their direction periodically and forms are provided for this purpose.[2] Through attention to this supervisory function, misfits are culled out more quickly and before their failure to perform satisfactorily alienates customers and opens the door to competitors.

5. Finally, there is the question of morale. The effective supervisor is not only a taskmaster but a leader in the best sense of the word. Particularly for younger men, who have not as yet attained the inner conviction that they are fully capable of performing effectively in selling tasks, the supervisor plays an important role. He furnishes inspiration and encouragement when most needed. Confidence in their ability to perform well in time, if not immediately, may be the outgrowth of supervisory attention to their particular problems.

Specific Tasks of Field Supervisors

With the foregoing general discussion in mind, we now turn to the details of the supervisor's job. Only through the making of job analyses, as previously discussed, can the supervisor's duties and functions be isolated and the real nature of his task determined. One such job analysis for supervisors who handle from five to fifteen men and operate out of branch offices is as follows:

Maintenance of the Organization—Periodic appraisal of personnel; Keeping salesmen satisfied; Preventing financial irregularities; Terminating services of salesmen.

Selection of Salesmen—Recruiting; Interviewing; Testing; Physical examination; Securing references; Using employment forms; Making employment decisions; Selecting strong salesmen; Filling vacancies without delay.

Training Salesmen—Mastery of training principles and training program; Training of new salesmen; Continued training of older salesmen; Training managerial prospects.

Application of Company Plans to His Organization—Giving intelligent consideration to territory conditions; Accepting responsibility for making organization's quota; Effecting territory coverage; Planning sales presentations; Handling local advertising and special promotions; Making long-range plans.

Supervision—Through Direction, Motivation, and Control—Direction (Giving instructions, Announcing company plans, Getting action on new plans); Motivation (Setting the example, Showing interest—encourage-

[2] For an example, see H. G. Kenagy and C. S. Yoakum, *Selection and Training of Salesmen* (New York: McGraw-Hill Book Company, Inc.), pp. 331–34.

ment, Using suggestions in handling men, Conducting contests, Stimulating through letters, telephone, and telegraph, Handling difficult situations, Reprimanding when necessary); Control (Making spot checks in field, Analyzing reports of salesmen, Recognizing when things are not right, Quickly correcting a situation that is out of line, Conducting meetings, Holding conferences with salesmen).

Administration—Reporting on general business, competitive activity; Personal activity and expense; Making estimates; Making recommendations; Maintaining records; Controlling expenses.

General Duties—Personal handling of certain accounts; Maintaining company goodwill; Planning own work; Personal relationships with his men; Proper attitude toward job, men, company; Knowledge of job, company policies, products; Personal improvement.[3]

This particular job analysis is unusually comprehensive. It is typical in its supervision phases but supervisors are apparently given more responsibility for selection of salesmen than is customary. The responsibility given for planning is noteworthy, also the emphasis on many small details which, in total, can make all the difference between effective operation and ineffectiveness.

Amount of Sales Supervision Required

The amount of sales supervision needed depends upon many factors, the most important of which are the type of products handled, the size of the company and of the sales force, the inherent capacity of the salesmen employed, and the degree of centralization in company operations. These factors are, of course, closely interrelated. In relation to product type, supervisory personnel is used in smaller proportion for producers' goods than for consumers' goods. The reasons therefor are not difficult to deduce. Salesmen of high-value, technical products must be particularly well trained and carefully selected individuals with superior ability. As such, they need less supervision than many other salesmen. Moreover, their work is not subject to a high degree of standardization and therefore of direction.

In contrast, whenever the nature of the sales task calls for many salesmen without a high level of natural ability, training and experience, sales supervisors must be used in larger proportion in order to attain a reasonable measure of success. One sales supervisor to each five or ten salesmen is not at all unusual in the food, tobacco, drug, or soap industries, when the supervisor likewise does some selling. The supervisor is a group leader, who combines selling with direction of other less experienced and competent people who would probably be much less effective if operating more autonomously. The sales task

[3] R. F. Lovett, "The Selection and Development of Sales Supervisors," *Practical Techniques in Sales Selection and Training* (Marketing Series, No. 60) (New York: American Management Association, 1945), pp. 26–27.

in these consumers' goods industries lends itself to supervision because it is more subject to standardization than in the industrial goods industries, and thus the work can be directed in greater detail.

In small concerns or in decentralized units of large concerns, supervision of salesmen may be needed as much as in large concerns with centralized control, but it comes about more naturally and with less planning. Personal contacts between salesmen and those people who have the responsibility for their direction are likely to be frequent and informal. Under such circumstances, there may be less formal supervision but it is doubtful whether the need of supervision is lessened. It is more likely to be neglected than under centralized control.

Despite the fact that field supervision can be overdone, there appears to be a consensus that there has been too little of it in the marketing field and that it has often been too remote from the actual selling operation. Management would not think of placing a large number of people in a factory without foremen, but, not infrequently, a large number of salesmen have been put into the field without much continuing direction of any kind. While there may be some reason for thinking that salesmen can be trusted to do a better job without direction than factory workers because of higher average intelligence and training, still no matter how energetic, well-trained, and enthusiastic salesmen may be there are few of them who can get maximum results without supervision. This is becoming increasingly recognized, and the salesmen-supervisor ratios now in vogue demonstrate that fact.

Responsibility for Field Supervision

Responsibility for supervision begins at the top of an organization and, in large companies, is delegated down through various levels to those individuals who work directly with the salesmen. In one instance, that of a large petroleum products company, the sales organization hierarchy included, under the vice-president and sales manager, four sales department managers, one each for northern, central, pacific, and southern regions; 15 district managers, 51 state superintendents; 248 representatives; and 869 salesmen who sold to or through 1,481 consignee's bulk plants, 246 company bulk plants, and 608 distributors to 47,028 dealers.[4] It is interesting to note that a ratio of about five to one between the various levels is maintained throughout this organizational structure. In this instance, the direct field supervisors of the salesmen are called representatives. They may be called "senior salesmen," "crew managers," "field trainers," "branch training

[4] "Developing Sales Supervision," *Sales Personnel Techniques*, p. 37.

directors," or "sales supervisors." Or the work may be delegated to branch managers, particularly in small branches to which only a few salesmen are assigned. While under these conditions it may be reasonable to do so, in general it is considered inadvisable to burden a branch manager with the entire task of supervision, unless he has competent administrative assistance, and is himself relieved of the burden of actual selling. Experience indicates that personal supervision is often neglected, other than in cases of extreme need, if responsibility for it rests solely upon a branch manager who also has numerous other duties.

Selection and Training of Field Supervisors

Sources of Supervisory Personnel. Field supervisors are usually selected from among a company's most successful salesmen. This is the most natural source, for these men have demonstrated their ability to handle sales work effectively. Some of them may have been selected initially with the expectation that they will be of sufficiently high calibre to work their way up in the ranks of management. Their progress will then be closely watched by top management, largely through records of performance and subjective ratings by their immediate superiors. While much may be expected from these men who are selected with managerial positions in view, they must prove themselves in order to get advancement and there is always competition from other salesmen. Sales executives are always on the lookout for people who have the ability to sell effectively and who possess that rarer combination of personal characteristics which is necessary for leadership at any level.

At times management considers it advisable to secure supervisory talent from outside sources, perhaps from among competitors' salesmen. The idea in mind is that salesmen may accept outsiders with better grace than someone who has worked with them as coequals. This procedure is, nevertheless, questionable for it enhances the need for training. These outsiders must be trained in reference to a company's products, policies, and procedures. Much the same objective could be realized by changing the territorial assignments of newly appointed supervisors, so that they would not supervise other salesmen with whom they had previously worked. These supervisors, unlike outsiders, would have had the necessary training and experience for effective supervisory work.

In one particular instance, it was stated by a sales manager in the office equipment field that he was always looking for evidences of leadership ability in the salesmen who were working under his direction. If salesmen naturally go to some of their number for advice and

help, it is good evidence that these people are particularly able and have those qualities which are needed in supervisory positions. In a sense, the salesmen select their own supervisors through their search for information and guidance. While selection in this way would not be infallible, still fewer mistakes would probably be made if some evidence was secured, either directly or indirectly, about the attitude of salesmen toward prospects for supervisory positions before decisions were made.

Qualifications of Supervisors. It should be recognized that successful salesmen are not, necessarily, well adapted for supervisory work. They may be able to sell but be quite in doubt as to just what factors contribute to their success. Moreover, they may lack the patience, understanding, and ability to teach, which are the qualities needed by the supervisor. They may not be aware of the difficulties encountered by other salesmen simply because these difficulties were not a part of their own work experience. The most brilliant people in any profession are often unaware of the problems of less gifted people and unable to understand why they cannot perform more satisfactorily. In contrast, if a salesman has become successful the hard way—by acceptance of instruction, experimentation with different methods, dogged determination, and constant application over a long period—he is more likely to be a successful supervisor than the more gifted person who finds the selling of goods or services relatively easy.

The supervisor should possess the same characteristics as salesmen but at least some of them in far greater abundance. He must be able to secure and merit the confidence of the men under his direction. This is a prime requisite for without it his chances of being highly successful in supervisory work are almost negligible. He must be a person who is willing to accept responsibility and one who enjoys leadership but still has an innate consideration for others which finds expression in a sympathetic and helpful attitude when personnel problems arise. He must be alert, flexible and analytical in his thinking in order to recognize the difficulties which salesmen are encountering and to be resourceful in devising means to overcome them. Ability to plan effectively and to make decisions without too much procrastination are necessary in all positions of leadership. While there might be general agreement on the desirability of these characteristics for sales supervisors, their relative need in supervisory positions differs. Therefore, it is necessary for each concern to work independently on this general problem of determining what characteristics distinguish the supervisor from the salesman and successful ones from those who are less successful. This is the first step in the selection process followed by others which were discussed in previous chapters.

Salesmen cannot be forced to accept supervision and have it reason-

ably successful. It is something which they must accept without too much skepticism and, preferably, with some measure of enthusiasm if good results are to be attained.

Training of Supervisors. As supervisors are usually selected from among a company's salesmen, it can be presumed that they have had the initial training given to all sales trainees and, in addition, long experience in the actual selling of the company's products. It cannot be assumed that they are sufficiently trained to train others successfully. Many companies have made the mistake of selecting supervisory personnel somewhat haphazardly and of assuming that they needed no further training. Actually, the successful salesman may not be quite aware of just why he is successful. Moreover, in the selling techniques of a particular individual, there is likely to be some variation from those suggested in formal training. He may need to relearn suggested procedures through participation, perhaps as an instructor, in the company's training program for beginners. Later his duties and responsibilities as a sales trainer or supervisor must be explained to him by the director of training or the regional or branch manager. Often a job manual is furnished, which explains in considerable detail just what he is expected to do and how he is expected to do it.

Still, the primary responsibility for the new supervisor's training will rest with his immediate superior. In one instance, the course of the salesman's advancement to supervisory responsibility proceeds from a sales assignment in which experience in selling is secured to occasional sales coaching, work as a sales trainer, branch office sales assistant, and, finally, sales supervisor.

As a sales trainer, he is given instruction in training methods. He has a training guide of detailed procedures and is given suggested reading lists on training methods, the psychology of learning, habit formation, etc. Since the responsibility for training rests with the supervisor, the latter delegates to the sales trainer only the "breaking in" phase. The supervisor, in his regular work with the salesmen, is able to appraise the character of the training job accomplished and is in a position to help the sales trainer eliminate faults and improve skill.

(Later, as a branch sales assistant) . . . the prospective supervisor's responsibilities broaden greatly. Gradually the branch manager assigns and coaches him in the advanced training of salesmen . . . (and other duties).

. . . At this stage personal coaching by the manager is the heart of the prospective supervisor's development. Job manuals, covering most phases of his work, also guide him. His reading now progresses to the sales management level, and book lists are provided regularly. A monthly company bulletin prepared for supervisors and managers, which contains a digest of the best current thinking on sales supervision and management, merchandising and trade developments, supplements his reading of books and trade journals.

Successful performance of this assignment . . . calls for unusual skill, for the prospect has no authority over those with whom he works. He must achieve results by reason of his authority as an expert, rather than by any authority vested in him by the management. If he can prove that he can get results from the salesmen by suggestion and by setting the right example, by showing the men he can help them become more productive, by demonstrating a friendly interest in them and their problems, then in our estimation he has gone a long sea mile toward proving he has supervisory ability. . . .

On successful completion of the branch office assistant assignment, the prospective supervisor is ready for appointment to a supervisory position. If the training has been skillfully planned and carried out, he has acquired most of the basic skills, is familiar with his salesmen and with the trade and territory for which he is to be responsible. . . .

His manager continues to work closely with him in his further development as long as he remains a supervisor.[5]

Methods of Field Supervision

There are many methods by which field supervision can be accomplished. Distinguishing features can be discerned between coaching on the job; continuing joint sales work in a senior-junior relationship; periodic observation, rating, and suggestions; supervisory meetings; and correspondence, bulletins, and house organs. Each of these will be considered in turn.

Coaching on the Job. This activity is usually included as a part of formal training programs and has been discussed previously.[6] Still it must be a continuing part of the supervisor's task, at least until salesmen have reached a desired measure of proficiency. The supervisor accompanies the salesman on his route and demonstrates how the interview should be conducted. The salesman then conducts interviews under the observation of the supervisor. If the interview goes along well, the supervisor should not interrupt, but, if the need for so doing becomes apparent to him, he will take over and complete the presentation. This eventuality should be understood between the salesman and the supervisor in advance, for no conflict between them should become apparent to the prospect. Later the supervisor will point out the salesman's mistakes and other presentations by the salesman will follow. It is not only in the conduct of the interview that coaching is needed, but also in securing the names of prospects, their evaluation, and in routing, reports, and other activities. Salesmen need coaching on the job, and, in most concerns, it can be used satisfactorily and with benefit both to the company and the salesmen.

Joint Sales Work. At times, the work of supervision is placed

[5] R. F. Lovett, *op. cit.*, pp. 30–31.

[6] Chapter XXI, pp. 639–40.

largely upon other salesmen in a senior-junior relationship. A beginner is placed under the direction of a successful senior salesman who is given complete responsibility for his day to day assignments. They literally work together on many accounts and separately on others. The senior salesman in turn works under the general supervision of a director of training or a branch manager in his supervisory activities. This relationship is needed to get uniformity in the supervisory work and to curb undesirable relationships or assignments. Still, the senior salesman usually has a large measure of latitude in his supervisory work. Under this general plan, the junior who draws a particularly able and agreeable senior is fortunate indeed, because senior salesmen will differ greatly in their ability to train and their attitude toward men of junior status. They must be carefully selected with the same personal requisites in mind as for other supervisory jobs. If they are adequately selected, the junior salesmen, through watching the senior operate, through making interviews under his observation, and through continuous friendly interchange of ideas and suggestions will gain confidence, increase in stature, and after a period will be ready for a greater measure of independence and a territory of his own.

Observation, Rating, and Suggestion. In contrast to the methods previously discussed, there may be occasional or periodic observation of salesmen at work, a rating of their strong and weak points on some predetermined classification, followed by a conference in which performance is the subject of a frank discussion between the supervisor and the salesman. Important objectives can be attained by this procedure. It should result in mutual understanding and, in further co-operation directed toward improvement in practice. The responsibility of helping the salesman improve his performance should be accepted by management and the first step is evaluating present performance. Only through such evaluation can a program for each man, designed to overcome his weaknesses, be outlined and the attention of both the supervisor and the man focused upon it.

One of the large food companies has developed what it calls a "work-with and work-review program." As a minimum this program is followed for one-half day each month for each man in its *work review* aspect and one day each month in its *work with* aspect. In the week in which the program is to be followed with a particular salesman, he covers a part of his territory on Monday and his supervisor covers the same territory for checking-up purposes on Tuesday. The supervisor calls on the same dealers as the salesman and states that he is attempting to ascertain what the salesman has done, how well he has performed, and whether he has been successful in attaining certain objectives. The dealer is encouraged to speak freely with the expectation that, if he does so, he will be better served by the

company in the future. On Wednesday, the supervisor accompanies the salesman on his route for purposes of observation. Then on Wednesday evening the two sit down together in a free discussion of the salesman's performance as revealed to the supervisor by observation and check-up. It is stated that even the older salesmen take this supervisory work in good part and profit by it. The sales work in this case is largely of a missionary character, and constant attention to details of product presentation, inventory control, display, quality maintenance, and pricing is necessary.

Salesman rating forms or rating scales are useful devices in the work of supervision if they are well prepared to fit specific sales jobs. In a sense, such a form is a questionnaire from management to supervisors in regard to salesmen's performance on the job. Included are those items which higher management thinks the supervisor should check on carefully and on which he should exercise his judgment as to the degree of proficiency attained or the degree that certain personal characteristics are brought to bear on the sales task. In certain instances, it is just a question as to how frequently the salesman performs certain tasks, such as checking on stocks or arranging displays. In other instances, it may be a question of the physical energy which he uses on the job, the enthusiasm which he shows, or the extent of his dependability or resourcefulness. In any event, the items for rating should be chosen upon the basis of a careful job analysis and a determination of the personal characteristics needed by the company's salesmen. Then the work of effective and ineffective salesmen in the field should be compared through actual observation for verification purposes. On the basis of these investigations, the items for inclusion on the rating form can be selected tentatively and used experimentally on a few observation trips with salesmen. Through this procedure, a form can be evolved which meets requirements and serves its purpose well.[7]

Management has important objectives in mind in furnishing rating forms to supervisors. First, greater uniformity is secured in the supervision process. Otherwise, each supervisor would probably either use no check list or check a different list of things. Many items, just because of the fact that much would be left to memory, would probably be neglected. The forms are prepared in line with the whole selection and training program and are based upon conclusions as to what the salesman should do and how he should do it in order to attain a company's objectives. Second, these forms are in some measure training devices for supervisors which guide their thinking along certain lines

[7] Rating forms are considered in more detail in a later chapter on the evaluation of salesmen's performance. Specific examples are shown of the forms used by two companies, one in the food industry, another in the glass industry. See Chapter XXVII, pp. 795–805.

in their supervisory work. Third, as a result of the classification which they provide, there is greater opportunity to spot those things which the salesman fails to do or do properly, those characteristics which he does not exercise sufficiently, or, perhaps, those negative characteristics or mannerisms which are limiting his effectiveness. Little things like a lack of tact or courtesy, a lack of punctuality, impatience, poor enunciation, or a habit of talking too much or too loudly may overcome the effect of many favorable factors. The possibility that such things may be present in particular instances and must be looked for is often indicated by the content of rating forms.

Supervisory Meetings. In addition to individual attention, most concerns do something by way of group supervision. In fact, of the two types, group supervision is more often than otherwise the principal reliance of management in supervisory work. It is less costly, provides greater opportunity for the exchange of experience, and can be handled so as to improve morale. It suffers by comparison, however, in that it is a less effective instrument for training in habit formation. There is no good substitute for coaching on the job, especially in the early part of a selling career. A good case can be made for the contention that individual and group supervision are more supplementary than substitutional and that each has its place in supervisory work.

Group meetings, often at the beginning of the workday, are frequently held in those cases where a group of salesmen work out of branch offices located in large cities. If salesmen need to report at the branch office to pick up equipment or other materials, there is little penalty in time or cost to having a short sales meeting, and the results achieved in supervision and stimulation may be noteworthy. For instance, the International Business Machines Corporation has sales meetings every workday morning in each branch office under the leadership of the branch manager.

> The tempo of the conference is rapid. . . . The procedure is varied to avoid monotony, but the Manager usually directs the attention of the group, for about ten minutes, to one particular point. At a typical meeting observed, the leader emphasized the need to know the names of IBM customers in the area. . . . Participation was high and cross-fire of discussion rapid. Ten minutes was allowed for any salesman to get the group thought on a case that puzzled him. One sale then in process was outlined and suggestions came from all sides. . . . One night each week the sales personnel of each branch office meet together for two hours. Future plans are discussed and attention is concentrated on the specific current needs of territory. The daily meetings and an analysis of sales records make it easy for the Manager to select the particular subjects that require clarification or emphasis.[8]

[8] National Industrial Conference Board, Inc., *Training Solutions of Company Problems* (Studies in Personnel Policy, No. 22) (New York, June, 1940), p. 69.

Through group meetings, a group consciousness can be developed which strengthens morale. The branch manager can keep in touch with each individual salesman's progress and problems and can discover where individual attention is most needed.

Most salesmen like group meetings and find them helpful. In one questionnaire study 51 per cent of 991 salesmen questioned said that they found group meetings helpful and an additional 43.7 per cent found them of some help.[9] But many salesmen wanted certain changes made, among them more frequent meetings, more factual information of more practical selling value, the opportunity for more participation in meetings by salesmen, better planning of the meetings and organization of the sessions. These observations by salesmen serve to emphasize the principal weaknesses of sales meetings as usually handled.

Salesmen evidently want constructive sessions devoted to means for the solution of their daily problems. They want more product and product use information, and an exchange of experience in handling prospects. Questions and answers, followed by mature discussion of the problems presented, will do much to enliven sales meetings and make them genuinely helpful. Through careful planning to include the desired type of material, effective timing and good direction, sales meetings can be used effectively for purposes of supervision and stimulation, but without these requisites they will be of little real value to the salesmen or the company.

Correspondence, Bulletins, House Organs. Although personal contact between salesmen and supervisors is definitely preferable in the work of supervision, there are circumstances in which such contacts are difficult and costly. If the number of salesmen employed is small and they work over a wide area, the physical difficulty of getting to them or of getting them to a central point may withhold other than infrequent contacts. In a large measure correspondence must be substituted for contacts under such circumstances. Correspondence may also be an important supplementary method of supervision to those previously discussed.

While correspondence suffers from many disadvantages in comparison to other supervisory methods, it is a flexible instrument for communication and one of low cost. It also provides a permanent record to which the salesman can refer when the need arises. To those people who are visual-minded, a letter may be more helpful than conversation with the supervisor. Often letters furnish a much clearer and more precise statement of instructions or of company policy than does conversation, particularly between people who may be hurried and subject to frequent interruptions. On the other hand, letters are often carelessly prepared and fail to meet their objectives. As a follow-up to personal contacts in order to clarify particular points or to

[9] Harry R. Tosdal and Ross M. Cunningham, *What Salesmen Think of Sales Managers* (Boston, Boston Sales Managers' Club, 1942–45), p. 11.

stress certain instructions, they are most useful. Often they are the means by which the analysis of salesmen's reports may be carried back to the salesmen with suggestions or instructions as to later action. Again, it should be stressed that personal contact is highly desirable and that correspondence is not an effective substitute for it. This fact is fully recognized by sales executives.

In addition to personal correspondence and even further removed from direct contact, most companies address their salesmen and attempt to influence their performance by bulletins and house organs which contain general instructions or suggestions, information on customers' needs, sales ideas, product information, and the like. They are partly informative, partly inspirational. If they are cleverly prepared and actually contain useful ideas, they are welcomed by salesmen and do influence performance favorably. In addition, they are a constant reminder that the home office is attempting to be helpful to the men in the field.

Essentials of Field Supervision

Some of the essentials of supervisory work have been discussed, among them adequate selection and training for the job. In the chapter on training, the importance of repetition and drill was stressed. Supervision is in large measure a continuance of salesman training. It is concerned primarily with the formation of correct habits in selling work. As habits are largely formed by doing rather than instruction, it is essential that supervision emphasizes work by the salesman under observation and direction. It is an essential of supervision that the supervisor show the salesman how to do certain tasks more acceptably and in greater measure. It seems reasonable that the salesman's deficiencies should be rated in importance by the supervisor. Then he should concentrate on one thing at a time, probably the one which, in his opinion, is withholding good performances to the greatest extent. A piecemeal approach—one thing at a time—makes good sense when a supervisor is trying to improve performance in any complex task such as selling. Just as when trying to improve performance in sports, it is well to concentrate attention on one deficiency at a time for otherwise confusion results and little progress is made at any point.

In all supervisory work, mutual respect and confidence must be developed if satisfactory results are to be attained. It is essential that salesmen should always have access to their immediate supervisors and, on occasion, to one level higher in the chain of command as well. Free access promotes mutual confidence and friendly relations. Moreover, salesmen's problems are more likely to be the subject of discussion and solution *before* they become aggravated. It is a good organizational principle that each man should have the opportunity for

appeal to higher authority than his immediate superior in case he feels the need of such action. If the salesman believes that his supervisor is showing favoritism, is ineffective in his work, or if there is a lack of sympathy and understanding between them he should have an avenue available to voice his criticisms and obviously it cannot be to the supervisor himself. Someone higher, perhaps a branch manager, should be accessible when such an occasion arises, and this fact should be made known to salesmen in advance.

It is another essential of supervisory work that salesmen's problems be handled expeditiously and justly. While complaints of unfair treatment are less numerous in selling than in production or office work, still they do arise at times and must be handled effectively. The procedure suggested in one instance is as follows:

a) Get the facts— Review the record—find out what policies, rules and customs apply—talk with individuals concerned—be a good listener—get the whole story.

b) Weigh and decide—Check practices and policies—fit the facts together—consider their bearing on each other—consider what course of actions are possible—consider effect on individuals and group—don't jump at conclusions.

c) Take action— Do you need help in handling?—Watch the timing of your action—don't pass the buck—explain clearly the reasons for the action taken.

d) Check results— How soon will you follow up? How often will you need to check? Watch for changes in attitudes and relationships. Did your action solve the problem?

The use of these four steps does not guarantee that the employee will be satisfied with the decision. If you have fairly considered the facts and arrived at a just decision, the employee will have confidence in you even though he did not receive the decision he desired. However, if the decision is unacceptable to the employee, suggest to him that you will arrange an interview with *your* supervisor.[10]

Here, it should be noted that the man who handles the problem is told to suggest an interview with another person higher in rank, if his decision is not acceptable to the employee. The principle of appeal is recognized, as it should be in any democratic organization. Following this general procedure, one which is used successfully by many supervisors, should do much to maintain a healthy attitude among salesmen toward their companies through providing solutions to their problems as they arise.

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[10] Socony-Vacuum Oil Company, Inc., Eastern Marketing, *Supervisor's Handbook, Industrial Relations and Training* (New York, April, 1949), chap. iii.

At least for larger concerns with a substantial number of salesmen, a definite system of sales supervision carefully worked out in its details and with objectives clearly stated is essential to success in supervisory work. The system should be outlined in a manual or handbook and should be made available to all interested parties.[11] Through this type of document the supervisor is apprised of his duties and responsibilities in considerable detail. A statement of general policies which he is expected to abide by and put into effect is brought to his attention and the material is available for ready reference when needed.

SUMMARY

Supervision is one means by which business concerns induce salesmen to cultivate the market along effective lines. It comprises the continuing work of training; enforcement of rules, regulations, and desired practices; stimulation; guidance; and leadership. The means used are direct field supervision, including sales work, coaching on the job, individual conferences, and group meetings; and communication between the salesmen and field and home-office people by means of correspondence, bulletins, house organs, and a reporting system. Reports provide some of the necessary material for supervision and control. Supervision has both positive and negative aspects, for salesmen are led to do certain things, restrained from doing others. It is important that the positive aspect be emphasized by management for, if leadership is strong and active, there will be little necessity for restraint. This has come to be recognized to an increasing extent by sales executives and relations with salesmen have thus improved. Leadership and guidance have replaced coercive methods, and, as a result, the morale of salesmen has been strengthened with benefit to all concerned.

REVIEW AND DISCUSSION QUESTIONS

1. Define "supervision," as applied to sales forces, from the functional point of view.
2. What explanation may be given for the apparent tendency more fully to supervise and control the activities of salesmen?
3. "There are both likenesses and differences in the task of supervision in sales as contrasted with production activities. It is important that these be recognized." Comment.
4. What criteria would you suggest for determining whether the salesmen of a particular concern needed more supervision and control?

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[11] An excellent example is *Supervisor's Handbook, Industrial Relations and Training.*

5. What are the reasons for supervision of field selling forces? Can you suggest reasons other than those mentioned in the text?
6. In your opinion, what are the most important personal attributes which a sales supervisor should possess? How would you select supervisors? Characterize the relationship which should exist between supervisors and salesmen.
7. Suggest an acceptable manner of handling salesmen's grievances. Why is it particularly important that grievances be handled promptly and well? Should the handling of grievances be left entirely to supervisors?
8. In many concerns each salesman's performance is rated at least once each year and subsequently discussed and analyzed with him by his supervisor. What suggestions would you make for planning and conducting an employee-performance review of this character? Should someone of higher rank than the salesman's immediate supervisor—perhaps the branch manager—also participate?
9. "My definition of supervision is leadership in action." "We use supervision to get discipline." Each of these statements was made by a businessman in a sales management conference. Which most nearly expresses your attitude toward the right objective of supervision? Do they each have some validity?
10. One of the large meat-packing companies has two general sales managers under a sales vice-president. One is in charge of branch-house sales; the other, of plant sales. Under the branch-house sales manager are 20 district managers, each of whom is in charge of from 10 to 50 branch sales offices. These branches operate in a quasi-independent manner, since their managers are responsible for ordering from the packing plants, for inventories, and, to a large extent, for pricing.

    In each branch there are from 4 to 20 salesmen. There is some specialization at this level. For instance, in larger branches there may be a beef man; a pork man; one who specializes in butter, eggs, poultry, and cheese; and, perhaps, others. Most of the salesmen, however, sell the entire line. The specialists give much of their attention to larger buyers who come to the branches to select meat. General salesmen call on the trade and, particularly in smaller branches, act almost as the purchasing agent for many small butcher shops.

    The plant sales department handles sales directly from 40 different plants, each of which has its own sales manager. Plant salesmen take orders from areas in which branch houses are not located. These orders, in the past, were delivered on so-called "car routes" but are now delivered by trucks.

    Attempt to envisage the supervisory activities needed at each level of management in order to sell perishable products of this character satisfactorily.

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Chapter XXIII

SALESMEN'S REPORTS

MANY of the methods of field supervision previously discussed can be practiced only through frequent personal contact between salesmen and supervisors. Much supervisory work, however, must be done at long range while the salesmen are traveling in their territories. No personal contacts between the salesman and his immediate superiors may take place for many weeks, and still a close relationship must be maintained in some manner if the work of selling is to be well integrated. This calls for a continual passage of information back and forth between them if each of them is to perform his particular functions effectively.

The home office or branch office must know where the salesman is, what he is doing, what measure of success he is achieving in his work, what difficulties he is encountering, what expenditures of company funds he is making, and certain facts about the market in his territory or about the condition of specific accounts which can be secured in no other manner than through salesmen's reports. *The salesman's report is essentially a tool of management whereby information needed for supervision and control is secured.* Reports can be classified broadly as those which deal with salesmen's activities and those which deal with their expenditures.

SALESMEN'S ACTIVITY REPORTS

Variation in Need and Use

There is a wide range in practice in the kinds and numbers of reports used by business concerns. Some sales executives are imbued with the idea that reports should be kept to a minimum, while others favor comprehensive reporting. Obviously, they are less needed if salesmen work out of a branch office in a metropolitan center, or if the concern which they represent sells over a limited area. Under such circumstances, reports are more likely to be oral than written. If a company has very few salesmen of high caliber, extensive reports are not likely to be required. In a highly decentralized sales organization, salesmen may work almost as independent businessmen. In that event, a company may not have sufficient control of its representatives

to secure periodic reports. The need differs likewise with the nature of the selling job. In routine selling of food products, tobacco, drugs, and other convenience goods, only call, expense, and credit reports are usually required. Routes are often laid out in advance through preplanning, so the home office people have knowledge of where the salesman is and what he is doing. However, in missionary sales work for consumers' goods, reports are needed and may even require detailed information.

It is in the field of durable goods that reports are most needed and required. Selling is more of an educational character than of a routine character. Preplanning of activities in the field, while desirable to a certain extent, is limited by conditions of the market and the lack of information. In the sale of consumers' durables, there is always much by way of promotional and developmental work in securing new accounts and introducing new products. In producers' goods, sales are often made after solicitation over a considerable period of time. Many people in different positions within the buying concern must be convinced of the desirability of a purchase, for instance, of a piece of equipment, before an order is actually given. Surveys and demonstrations may have to be made and other service work performed. Eventually, many parts of a sales organization may aid, either directly or indirectly, in securing an order. Therefore, a progress report made after each call becomes a significant document, both as a record for later use by the salesman himself and as an indication to people in the home office of the work accomplished to date and the present attitude of the potential customer toward the company's products and their purchase.

Duality of Objectives

It has come to be recognized that management has two objectives in mind in requiring salesmen's reports. The first, and most important, is to secure the proper liaison between salesmen and home office people, so that they may become fully apprised of conditions in the field, including salesmen's activities, customers' buying habits, opportunities for sales, and competitive strength. The second objective is to get the salesman to plan and review his work and its results periodically. In a very real sense, the salesman's reports are his own records of activity and accomplishment.

It is important to management to know the extent to which promotional work is being done. Today's promotional work becomes tomorrow's sales. If there is a slump in promotional and developmental work, eventually there will be a slump in sales volume. Management cannot afford to *assume* that promotional work, on which later sales

depend, is being done. Assurance is needed and can, in part, be secured from periodic reports.

Consider as an illustration the sale of a product such as revolving doors. It is necessary for salesmen to keep in close contact with all building construction in which such doors could be used. Periodic reports from salesmen or dealers may be needed on building permits issued in their territories, building contracts awarded, construction activity, requirements of specific jobs, attention to inquiries, and so forth. Unless the needed information is provided periodically and in the necessary detail, home office promotional and supervisory work is hampered, and eventually sales volume will suffer. If, despite the best efforts of both the home office and the salesmen, business is lost to competing concerns, the reasons therefor, if they can be determined, may serve to guide later activities along sounder and more productive lines.

Another reason for reports—as well as for home and branch office sales records for which they provide the materials—is the particular need for recorded information on the market when salesmen leave and others take their places. Movement of this character may be the result of turnover in the sales force, also of shifting salesmen between territories. The promotion of one salesman to a more important territory or to a managerial position may mean the reassignment of a number of men, each to a better job. Whether a certain territory is taken by a new man or one who has been transferred, the transition will be easier if sales records are fully adequate.

The second objective centers about the effect which reporting will have upon the salesman himself. At least some types of report almost force salesmen to plan and review their work periodically. A more thoughtful approach to the work of selling may be induced on the part of salesmen, something which approaches the attitude of management toward the salesman's job. The chief benefit of reports may be this sort of approach to particular problems with which they are confronted, likewise a greater readiness on their part to elicit and use the help of branch-office and home-office research, promotional, and supervisory personnel. Particularly for those concerns which actually sell service through products—the manufacturers of containers, office equipment, and machine tools, for instance—the problem is to tie in specialized personnel, so that the impact of their knowledge is felt on field operations where it will help most in the selling process. This calls for planning by the salesman, as well as by management, and, to a certain extent at least, this is induced by reporting work.

At times, management requires a so-called planning report which, for an advanced period, elicits information on projected itinerary, the names of present or prospective accounts on which calls will be made,

and, perhaps, on what the salesman expects to do when calls are made. Such plans can be checked at the office and, if they appear unwise, suggestions for revisions can be made. At least the salesmen has been forced to envisage his activities in advance and subject them to review. Often the reports made at an earlier date prove invaluable in the work of later solicitation. In one instance, call reports are handed or mailed to the branch manager each day. On these reports, of which there is only one copy, there is a small space for the salesman to write high-spot information which he feels he will need later or which might be of interest to the branch manager. The information is posted on a permanent record and then the report goes into a recall file based on the date shown for the next call. Prior to the week in which the next calls are to be made in the same territory the previous call reports are given back to the salesman to aid him in laying out his itinerary and to refresh his memory in regard to the notes previously made on products and services discussed, attitude of the potential buyer, etc. A carbon copy retained by the salesman would serve the same purpose if it was filed and reviewed before the next call. However, the return of the original report, perhaps with comments by the branch manager, again brings the material to the salesman's attention and thus there is greater assurance of its use. The responsibility for recall is not placed on the salesman but rather is assumed by the branch office.

Types of Salesmen's Reports

As might be expected, there is marked variation both in the content requested and in the form of salesmen's reports. Some concerns attempt to secure all the information wanted on one report form, while others use a variety of forms with specific objectives in mind. Disregarding the fact that certain types of report may be combined in actual practice, a number of types will be commented upon briefly.

Reports on Sales. Salesmen are usually expected to send to the home office daily information on the orders taken.

Call Reports or Daily Progress Reports. In addition to the name and location of the account, other information may be requested, such as account classification, the names of the people actually contacted and the positions which they hold, the time spent on the call, the selling aids used, the results of the call, information which may be useful in later calls, and the approximate date on which the next call should be made. Figure 20 shows an example of a daily call report—one which is used by a manufacturer of containers. The report is turned in or mailed to the branch manager each day. The report is coded for checking the type of call and for designating one or more types of service or selling aids which may have been used. Note the space at the right for comments on the results achieved or any other

FIGURE 20

CALL REPORT

Account: John Jones Company Date 4-13-49

Location. Tiffin, Ohio Date Next Call 5-21-49

Interviewed John Jones, Jr. - George Stewart

- [X] Call - Regular
- [ ] Call - Buyer not seen
- [ ] Call - Order secured
- [ ] Sales meeting with Customer's Salesmen

- [X] Design Development
- [ ] Research Laboratory
- [ ] Research Engineering
- [X] Consumer Research
- [ ] Published Surveys
- [ ] Retail Aids
- [ ] Advertising
- [ ] Publicity
- [ ] Films
- [ ] Routine
- [ ] Complaint
- [ ] Service

Results: Submitted sketch of new taper polish bottle and sample of lithographed cap. Both Mr. Jones and Mr. Stewart were pleased with the presentation. We also discussed a possible consumer survey for their new product. Arranged to be present May 21st, when they have meeting with advertising agency to go over plans for new package.

Salesman T.M.H.

information which may prove useful afterward. Figure 21 is used by a manufacturer of industrial equipment and supplies. Note that the time of the call is requested, likewise its purpose. As the salesmen at times are accompanied by branch managers or experts from the home office an "Accompanied By" space is provided. This report is filled out in triplicate, thereby providing a copy for the district office, the home office, and the salesman.

Planning or Route Reports. Reports may be required on contemplated itinerary over an advance period, usually a week, including information on present or potential customers who will be contacted and, perhaps, on purposes of the calls. The objectives are to get the salesmen to plan their work, likewise to inform the people at the office where they will be on certain days so that they may be contacted, if necessary. Figure 22 furnishes an example of this type of report. At times a space for this type of information is included in a weekly expense report. The salesman then reports on past expenses and future activities on the same form.

Reports on New Accounts and New Prospects. Management often requests comprehensive information on new accounts and prospects. It is necessary to set up a card in the customer card file. Information is wanted on classification, size, and location of the account; perhaps also on the products manufactured or sold, physical facilities

FIGURE 21

CARBOLOY COMPANY, INC.

SALESMAN'S WEEKLY CALL REPORT

SALESMAN_____ WEEK BEGINNING_____ 19____

	CUSTOMER	CITY	TIME OF CALL	ACCOMPANIED BY	PURPOSE OF CALL
M					
O					
N					
D					
A					
Y					

for manufacture or sale, credit standing, competitive products customarily purchased, and so on.

Credit and Collection Reports. Salesmen are often expected to supply credit information obtained from banks and other local sources and to make collections periodically. Report forms are provided for each of these purposes.

Lost Business Reports. Many business concerns ask their salesmen to comment on the reasons for the loss of business to competing concerns. While complete information is never obtainable, there is usually some indication of the reasons behind failure to obtain orders, and these are of significance to management. This type of report is more likely to be used by concerns which handle producers' goods than those which handle consumers' goods.

Report on Potential Business. Many concerns rely upon the salesmen to estimate potential business in their respective territories for forthcoming periods. Often there is an estimate made for each individual account by type of product.

Inquiry Reports. Many concerns provide a special form for fol-

FIGURE 22

ITINERARY OF_____ WEEK STARTING_____

MONDAY

QUO NO	CUSTOMER	LOCATION	PERSONNEL	REMARKS

HOTEL (MONDAY NIGHT) LOCATION

lowing up inquiries from the field. Salesmen are directed to follow up these inquiries and report back, often in considerable detail, to the home office.

Complaint and Adjustment Reports. This is a special type of report which salesmen are requested to make when complaints are made to the home office. A salesman is expected to investigate thoroughly and, when necessary, to suggest adjustments.

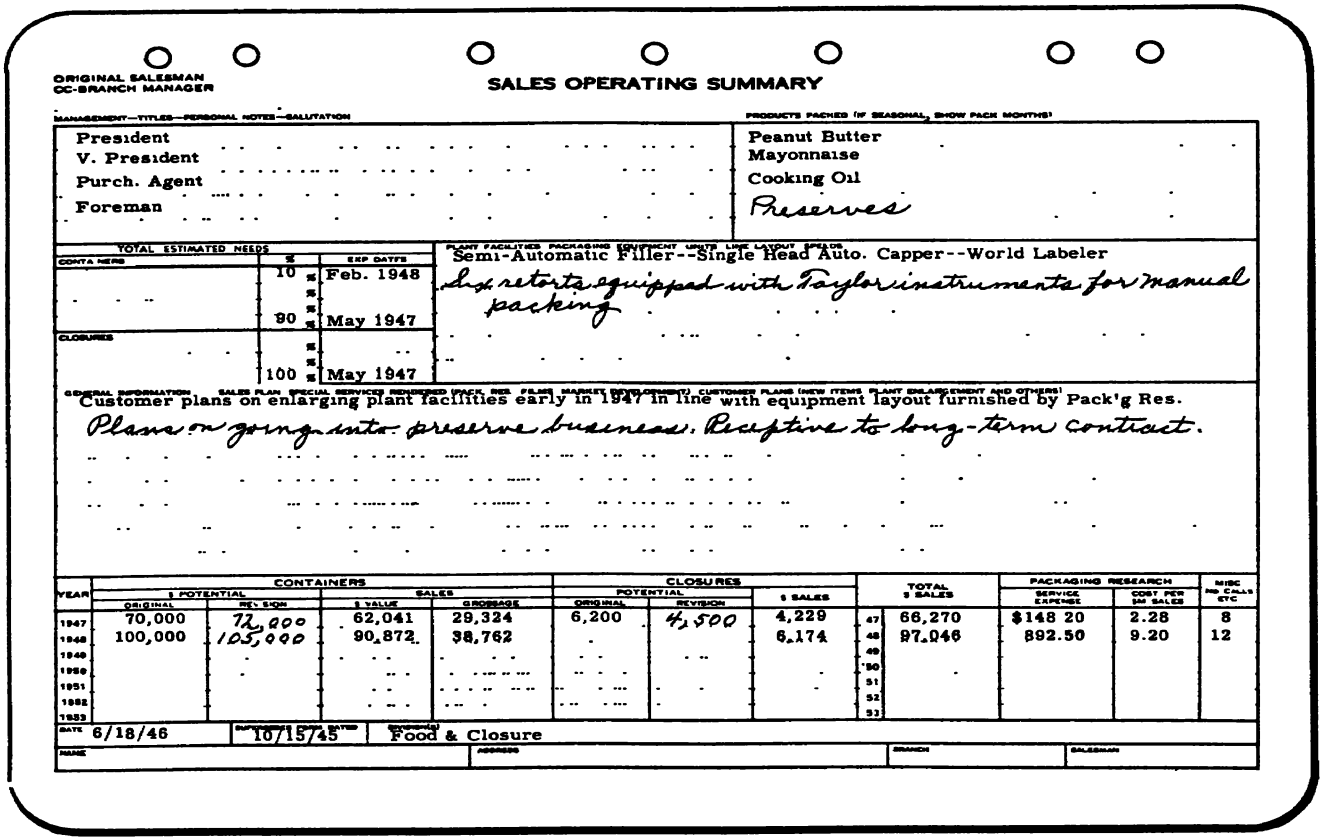
Field Operating Summary. On the basis of information secured from other reports, particularly call reports, a summary record of field operations may be kept in the office or, perhaps, by the salesman himself. At least, copies are likely to be in the hands of salesmen for easy access to information on customers—location, names and titles of their officers, products in which they are interested, their sales potentials, previous purchases, plant facilities, plans for expansion, etc.; time of previous calls, progress made in interesting the potential customer, and any other information which might be useful in later solicitation. The objective in mind is to record and retain basic data on all major accounts and prospects so that it will be available when needed at the home office, in regional or branch offices, or by the salesmen. Records of this sort are used only in nonroutine sales work.

Figure 23 is an excellent illustration. It is used by a large manufacturer of containers. Only one side of the report is shown. The opposite side is used entirely for a statement of sales potentials by particular items. Often records of this sort have considerably more data than this one on the timing of past calls. For instance, a manufacturer of industrial equipment and supplies has developed a Master Customer Call List on which are included the names and locations of customers, data on customer potentials and the year's budget—that part of the potential for each customer which the company hopes or expects to supply, the calls planned and the calls actually made by weeks over the entire year. Each week this master call list is brought up to date when the salesmen's weekly call reports come in. Therefore, the office has a record of solicitation by the salesmen. Each salesman in turn keeps a copy and uses it for planning the calls he will make.

Salesmen's Attitude toward Reports

It is customary for salesmen to be critical of reporting. Work on reports is considered something extra which must be done in the evening or at off hours. Apparently, it is difficult for them to think of work on reports as an integral and necessary part of their selling activity. Often salesmen are not temperamentally well fitted to do such work. The same characteristics which lead to success in contact activities may lead to an aversion for work on reports and the investigation which often precedes it. One sales executive said that you have to

FIGURE 23



ORIGINAL SALESMAN
CC-BRANCH MANAGER

SALES OPERATING SUMMARY

MANAGEMENT—TITLES—PERSONAL NOTES—SALUTATION

President
V. President
Purch. Agent
Foreman

PRODUCTS PACKED (IF SEASONAL, SHOW PACK MONTHS)

Peanut Butter
Mayonnaise
Cooking Oil
Preserves

TOTAL ESTIMATED NEEDS — CONTAINERS	%	EXP DATE
	10 %	Feb. 1948
	%	
	%	
	90 %	May 1947
CLOSURES	%	
	%	
	100 %	May 1947

PLANT FACILITIES PACKAGING EQUIPMENT UNITS LINE LAYOUT SPEEDS

Semi-Automatic Filler--Single Head Auto. Capper--World Labeler
1 - 5 ft. retort equipped with Taylor instruments for manual packing

GENERAL INFORMATION SALES PLAN SPECIAL SERVICES RENDERED (TRADE, RES. FILES, MARKET DEVELOPMENT) CUSTOMERS PLANS (NEW ITEMS, PLANT ENLARGEMENT AND OTHERS)

Customer plans on enlarging plant facilities early in 1947 in line with equipment layout furnished by Pack'g Res.
Plans on going into preserve business. Receptive to long-term contract.

YEAR	CONTAINERS — POTENTIAL $ ORIGINAL	POTENTIAL $ REVISION	SALES $ VALUE	SALES GROSSAGE	CLOSURES — POTENTIAL ORIGINAL	POTENTIAL REVISION	CLOSURES SALES $		TOTAL $ SALES	PACKAGING RESEARCH — SERVICE EXPENSE	PACKAGING RESEARCH — COST PER $M SALES	MISC. NO. CALLS ETC.
1947	70,000	72,000	62,041	29,324	6,200	4,500	4,229	47	66,270	$148 20	2.28	8
1948	100,000	105,000	90,872	38,762			6,174	48	97,046	892.50	9.20	12
1949								49				
1950								50				
1951								51				
1952								52				
1953								53				

DATE 6/18/46 | DATE OF LAST REVISION 10/15/45 | Food & Closure

NAME | ADDRESS | BRANCH | SALESMAN

watch salesmen who make particularly good reports, as they may be in the "report business" and not effective in actual selling. In this man's experience, the best salesmen often prepare the poorest reports, but this does not necessarily follow. It can be argued that the best salesmen are those who handle all duties connected with their jobs effectively, and this includes reports.

To secure the proper attention to reports is a continuing problem of management. Salesmen must be shown how the work on reports will ultimately aid them. If they can be made to feel that a certain amount of record-keeping on their part is helpful, whether or not the records are sent to the home office in the form of reports, the work will probably be done. Another attack on the problem is through incentives. At times, performance on reports is tied up with incentive compensation through bonus payments or gifts. If management continually stresses the fact that performance on reports is watched carefully and is one of the factors taken into consideration in salary revision or promotion, the effect on performance may be a salutary one.

Securing compliance with the desires of management is always, in part, an administrative job. If reports do not come in or are not well prepared, the fact must be brought to the attention of salesmen and better performance urged. It may help to publicize excellent performance in house organs, or to recognize it in some other way. In one instance, the records at branch offices which are based upon salesmen's reports are brought to the home office annually and are reviewed with certain criteria in mind as to the comprehensiveness of the information presented, its currency, whether they show evidence of hurried preparation just prior to inspection, etc. The management feels that the records can be evaluated and rated justly and that the annual review, rating, and publicity on ratings which follows serve a worth-while purpose. Nevertheless, no means of securing compliance on reports and records will be fully effective.

Compliance and co-operation on reports is in part a matter of securing the needed information from the field with the least effort on the part of salesmen. Through carefulness and the use of imagination in the preparation of forms, the work of the salesmen can be considerably reduced and objectives thus lessened. Periodic review of forms and the basic usefulness of the information requested is necessary because conditions may change markedly over time, and revision of report form and content may then be in order.

Criteria for Judging Reporting Systems

Even under substantially similar conditions, there is variation in reporting systems. One concern may have an established sales control

system which requires information from the field. Through this sales control system, incoming information is handled effectively and soon becomes available in useful form for those people in the organization to whom it is significant as the basis for later action. Because of the lack of a sales control system and developed promotional weapons, another concern may not have the will or the way to use the same type of information, even though it is secured from the field. In other words, reports by salesmen, office control systems, and promotional activities must be interrelated and co-ordinated, if reports are to be useful. This suggests that the most important single basis for judging a reporting system is whether there is an important use for the information requested and whether it is used for the intended purpose.

Another basis of evaluation is whether the information requested from salesmen could be secured from any other source, even at somewhat greater cost. Credit information, data on potential sales volume, and names of potential customers might be procured elsewhere. Of course, there would be some cost involved, but there is a hidden cost in making salesmen do market research work. In general, it is wise policy to relieve the salesman as much as possible from such work and allow him to spend more time and energy on soliciting purchases. This also suggests the criterion of a practical load of report work. Just what a practical load is would be subject to much disagreement, but the questions, "Is the load of report work more than the company can reasonably expect?" and "Will it unduly interfere with sales calls?" are most pertinent ones. It is doubtful whether over thirty to forty minutes on reports after office hours, in most instances, can be justified. Still, it should be recognized that some work on reports can be fitted into waiting time. In the opinion of the writer, most salesmen are not overburdened with report work, but, if they think they are and cannot be persuaded to the contrary, it is well to lessen the burden, if possible by administrative means rather than by reducing the fund of information thus made available to management. There should be no hesitancy on the part of management in requesting information which is actually needed and forcing compliance on the part of salesmen. No useful purpose will be served in the long run by allowing the unreasonable objections of salesmen to report work to cripple the whole sales program.

In attempting to judge a reporting system, the question might be asked as to whether it provides for a two-way exchange of information. After information is assembled, studied, and recorded, some of it should go back to the field along with other pertinent information secured directly by the home office. So often management seems to forget that reporting is a two-way procedure. Perhaps the salesman will be less impatient with reporting work if there is good evidence that he is being aided in the process.

The other criteria which might be applied deal with form rather than with content. There is a nice balance between too many and too few report forms. Some concerns have attempted to design one form on which all of the information wanted can be included. Such a form is cumbersome and usually only partly used. It does not make much sense to burden a report for calls or expense items with data on potential sales volume, complaints, or reasons for lost business. Calls, sales, and expense are often placed on one form as they must be reported daily or weekly and may require relatively little space compared with certain other items. While the carrying around of many different report forms should be avoided, a reasonable number of special-purpose forms usually save effort both on the part of the salesman and at the home office. Summaries, comparisons with earlier periods, lengthy additions and other clerical work should not be required on salesmen's reports. They should not be asked to do any work which could be done equally well in the office. Clerks or report analysts can do such work at much less cost.

CONTROL OF SALESMEN'S EXPENSES

Salesmen's expense is another area in which supervision and control must be exercised by management. The great majority of salesmen, of necessity, are given some responsibility for the expenditure of funds furnished by their companies. In a recent study among 135 representative companies in many industries, it was learned that the average cost, exclusive of transportation, of keeping a man in a metropolitan center was $11.75 per day and in a small city $9.09 per day.[1] These costs have increased from 40 to 50 per cent since 1939, according to this study. Thus it is apparent that we are dealing with a major area of a companys' expenditures and one which, if not controlled, might get out of hand and reduce profits substantially.

The possibilities of control depend upon the nature of the expense items, whether they are beyond the control of the salesman, or whether they can be more or less depending upon his decisions or the decisions of management. There are expenses in the field in each of these broad categories. Presumably nothing can be done to influence passenger rates on public carriers, but decisions can be made as to whether travel by railroad, airline, bus, a company's car, or a private car will be most economical. In general, decisions of this broad character are likely to be made by management, not by the salesmen, but a certain flexibility is needed in the field. There are other expense decisions which must be made much more frequently by the salesman. On hotel rates, meals, entertainment, and many other expense items,

[1] "Cost of Keeping Salesmen in the Field Rises 40–50% since 1939," *Sales Management*, July 1, 1948, p. 44.

it is often a question of assuming more or less expense from day to day. The variation in the total amount expended over an annual period may be great. As a result, many schemes have been evolved for keeping these expenditures within due bounds.

The difficulties involved in salesmen's expense control are great because of the morale factor. It enters in to a greater extent than in the control of office or production costs. Often, changes can be made in production techniques to effect cost reductions without any repercussions on personnel. But attempted reduction in salesmen's expenses—for instance, for entertainment, pressing, or laundry—may smack of penuriousness and be resented by salesmen. So much depends upon a healthy attitude on the part of salesmen toward their companies that attempts to make small savings may well defeat their own purpose. This fact, together with the aversion of sales managers to contentions over expense items, has often led to laxity on the control of these expenses. There can be little doubt that many salesmen have secured additional compensation through overstating expenses. As a result, expense control can be productive, often to the extent of 10 per cent or more, without noticeable reduction on salesmen's productivity.

It should be recognized that expense control in this area is much broader than the question of what expenses will be permitted on company account. The expense which must necessarily be assumed depends upon the reasonableness of territorial assignments; itineraries which are followed in sales solicitation; the selection of prospects on whom calls will be made; the relative proportions of traveling, waiting, and contact time; and other basic factors of this character, some of which will be considered in the following chapter. These matters are of far greater importance than expense control in the narrower sense. Nevertheless, it deserves attention as some general principles have been evolved with which students of sales management should become familiar.

Requisites of an Expense Control Plan

In the initial preparation of an expense control plan or in the evaluation of one in use, certain criteria should be kept in mind. Just as a matter of habitual procedure, the planning of controls of any type should be prefaced by an attempt to isolate objectives for purposes of guidance. Even then there is the need, after controls have been in use for some time, to review the results to see whether the plan adopted actually meets the stated objectives. Therefore, most control plans go through an evolutionary process in which adjustments are made as experience and changed conditions dictate. The following are some of the most important objectives of any control plan.

1. *A control plan which provides for payment by the company of all legitimate expenses.* A legitimate expense in this connection is one which the salesman would not have incurred if he had not been traveling for his company as a work assignment. In other words, it is an expense which is a direct outgrowth of the fact that the salesman is away from home as a condition of his employment in a selling job. It will be recognized that such a test of a legitimate expenditure of company funds raises difficult questions, particularly in reference to living expenses. If such a test is applied rigidly, only that share of living expenses above the expenses which would have been assumed by the salesman for like purposes when at home would be on company account. As a matter of practical administration, it is difficult, if not impossible, to determine just how much the salesman's living expenses are increased when in the field, but the increase is known to be substantial. Therefore, it has become customary for companies fully to defray the expense of meals and hotel rooms. More doubtful items are laundry and pressing, but these are allowed by many concerns. Surely the salesman should not be asked to defray any expenses which are solely or even largely occasioned by the fact that he is traveling for his company as a work assignment.

2. *An expense control plan which is definitely stated and easily understandable.* Any plan is subject to criticism which is not based upon policies known to home-office people who deal with expense reports and clearly communicated to salesmen. Salesmen should be apprised of what is expected of them by way of expense control and reporting. In one instance, a weekly travel expense booklet type of report form includes a statement of special rules to be observed by all salesmen, many of which deal with expenditures.

3. *An expense control plan of which both management and salesmen approve.* It is well to let salesmen have a part in the preparation or revision of an expense control plan. Not only is the plan likely to be a better one, but approval of salesmen is secured in advance. In one study, 921 salesmen expressed themselves concerning the manner in which sales managers handled their expense accounts. Of this total, 86 per cent believed that the treatment accorded them was either generous or fair. Only 149 men took advantage of the opportunity to suggest changes. Real dissatisfaction with the handling of expense reports was limited to 89 men, or less than 10 per cent.[2]

4. *A plan which avoids friction and disputes between salesmen and management over expenses and still protects the company against expenditures which are not truly productive.* This is the essence of the problem involved in expense control. Company executives want

[2] Harry R. Tosdal and Ross M. Cunningham, *What Salesmen Think of Sales Managers* (Boston: Sales Managers' Club of the Boston Chamber of Commerce, 1942–45), pp. 28–29.

to permit legitimate expenditures, for they add to the salesman's effectiveness, but they also want to prevent the padding of expense accounts. As noted previously, definiteness of arrangements will help, also intelligent administration of a plan. The possibility of friction strongly suggests a policy which emphasizes results in relation to expenditures, rather than expenditures as such.

5. *A plan which, in so far as possible, conserves the time of management, of salesmen, and of people who work on expense control in the office.* This objective strongly suggests that no information should be secured on expense reports which is not useful or actually used for control purposes. Too great demand for itemization of expenses serves no good purpose and makes additional work for all parties concerned. In most cases, daily reports are no more effective for control of expense than weekly reports and should not be required. In the study mentioned in (3) the frequency of reports among the companies included was as follows: daily, 11.3 per cent; weekly, 52.3 per cent; every two weeks, 12.9 per cent; monthly, 23.5 per cent.[3] The question should always be in mind as to whether or not the additional work involved on more frequent reports is more than compensated by the expense reduction achieved.

6. *A plan which is in alignment with the type of sales activity, the method of compensation, the caliber of the salesmen employed, and other basic factors of a particular situation.* Expense control plans differ greatly in regard to the degree of control which they provide. The need of control depends in turn upon the factors mentioned above. It is a question of the appropriateness of certain plans in view of all other considerations involved in a particular case.

Expense Control Methods

The principal variable in expense control methods is the amount of control which they provide. In the analysis of expense control plans, those which result in least control will first be listed and discussed. The plans are as follows:

1. Salesman responsible for own expenses, expenses covered by a percentage of net sales.
2. Advances, reimbursement in lump sum, no expense report required.
3. Advances, reimbursement on basis of expense reports, no prior limitations on expense items.
4. Budget plan, advances, reimbursement on basis of expense reports, limitation through budget.
5. Advances, reimbursement on basis of expense reports, limitations on specific types of expenses.

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[3] *Traveling Expenses of Salesmen* (Chicago: Dartnell Corporation, 1946).

6. Flat allowances per week or month, expense reports usually not required.

In the great majority of cases, some form of expense report is required. In one study involving 361 companies widely distributed as to location, size, and type, 338, or 93.6 per cent, required expense reports and only 20, or 5.5 per cent used a flat allowance.[4]

Salesmen Responsible for Own Expenses. This plan is used only in those situations in which salesmen act largely in an independent capacity. It is used in connection with a commission plan of compensation. The rate of commission is placed at a sufficiently high level to take care of expenses as well as compensation. Therefore, expenses are covered by a percentage of net sales even though the commission rate is not broken down into two parts, one for expense, the other for compensation.

This plan has little to commend it other than its simplicity and the relief it gives to sales executives who thereby side-step certain administrative problems. It furnishes a minimum of control, for the salesman feels that he is spending his own money and should not be circumscribed in so doing. Attempts on their part to skimp on expenditures may lead to inadequate coverage of the market, neglect of accounts, a lack of developmental work and other evidences of ineffective selling. Nor is such a plan likely to be basically equitable. No two territories are exactly alike, and the expenses required for an effective selling job will vary, sometimes substantially. Therefore, on the basis of expense alone, each salesman should probably be given a differing commission rate on net sales. Thus the need for administration is shifted from the work with expense accounts to that of setting equitable commission rates. While this plan has some adherents who note its simplicity and the fact that under it expense becomes a variable cost, it does not constitute a solution to the expense problem for most concerns. Its basic weakness is that it does not provide management with enough control of salesmen's activities in the field.

Advances, Reimbursement, No Report Required. This has often been called the honor system. By its use, the salesman is placed in the same position as executive officers of his company whose expenses might not be reported other than in lump sum and would not be questioned. The use of the method indicates to salesmen that their superior officers within the company have complete confidence both in their honesty and in their judgment as to what constitutes justifiable expense. Perhaps management thinks that the improvement in morale which may result from the use of this method, the avoidance of friction, conservation of the salesmen's time, and the reduction of

[4] National Industrial Conference Board, Inc., *Salesmen's Compensation Plans* (Studies in Personnel Policy, No. 81) (New York, 1947), p. 32.

clerical work at the office will more than compensate for the lack of control over expenditures and the likelihood that expenses will be higher under the plan. In view of the lack of control which it provides and the fact that most people cannot be expected to act with restraint and good judgment under such circumstances, this plan is likely to be used only by a company which has but few high-grade salesmen of executive stature.

Advances, Expense Reports, Reimbursement, No Prior Limitations. This plan is probably used more often than any other plan. The salesman is furnished a certain sum of money to be used as a rotating fund from which he pays his expenses. The sum is replenished periodically on the basis of expense reports which have been approved at the office. While the salesman is instructed in regard to the types of expense for which he will be reimbursed, no definite limitations are placed on specific items such as meals or hotel rooms. Often receipts are requested for those expenditures in connection with which receipts are customarily given.

It can be strongly argued that this plan provides enough control of salesmen's expenditures. Management manifests some confidence in the willingness and ability of salesmen to handle field expenses honestly and wisely. Still there is always the possibility of restraining them on the basis of expense account analysis. Situations sometimes call for unusual expenditures which salesmen might hesitate to make under a quota or a flat allowance method. Particularly when salesmen are doing a large amount of missionary or developmental work in new territories or with new customers, variation in expense is likely from week to week and therefore expenses should not be too rigidly controlled in advance. In fact, there is not the basis or information necessary for such control.

The arguments against this plan are that salesmen are likely to pad expense accounts or make unwise expenditures in the expectation that they will either go unnoticed or fail to evoke a protest from the office. Salesmen often object to the extent of itemization required by management. Moreover, there is always the possibility that disputes will arise over expense reports with resultant ill will and lowered morale. More time in preparation is needed and more expense is incurred for observation and analysis of reports in the office if this activity is properly performed than under some other plans.

Budget Plan, Expense Reports, Reimbursement. This plan is a variation of the one just discussed, with only one major difference. Management attempts to determine in advance the amount of expenditure of this character which can be justified in each territory. Then each salesman is given an expense budget within which he is instructed to work during an advance period. Of course all budgets are estimates for purposes of guidance and are subject to change if neces-

sary. Still, they do have a restraining influence against excessive expenditures, and it is likely that an expense budget for each salesman would not be an exception. If his budget is fair and reasonably generous, the salesman will assume responsibility for it. He is allowed some freedom as to types of expenditure as long as he keeps within his budget and will therefore expect and probably get less personal supervision than formerly. This sense of freedom under responsibility may heighten his morale. Another advantage is well stated in the following quotation:

> If traveling expenses have to be reduced, the subject can be approached by saying that everyone's budget must be reduced. In the opinions of the companies in the survey who use salesmen's budgets, this is the easiest and most effective way to control or reduce traveling expenses and with the least effect on salesmen's morale. One of the major difficulties is the determining of individual expense budgets according to territories and current traveling costs. Budgeting of the sales force and the individual salesman seems, however, to be one control technique which warrants consideration.[5]

Advances, Expense Reports, Reimbursement, Limitations on Specific Items. This plan has the virtue of notifying salesmen in advance of the upper limits which management feels should be observed in day-to-day expenditures. It is, in a sense, a further extension of the budget plan. However, instead of a limitation on the over-all expense for an advanced period, as in a budget, limitations are placed upon the expenses which can be incurred for specific items such as meals, hotel rooms, or entertainment. In one particular instance, daily meals are now limited to $4.00; hotel rooms to $4.50; and incidentals, including tips, to $1.00 when salesmen are working in large cities. Somewhat lower maximums apply in smaller cities and towns. Expense for meals may not be allowed unless the salesman is away from home, or expense for laundry and pressing unless he is away for a week or longer. Entertainment, other than meals for guests, and gifts, often requires special approval.

In order to establish reasonable maximum allowances for expense items, it is necessary for management to accumulate data from the field. Previous expense reports from salesmen may be relied upon, but, if expense padding has been practiced, they are not reliable. Then there is always the question, if there has been little or no padding, whether the expenses actually incurred were necessary in the amount incurred. In view of these questions, it is desirable to do something by way of investigation on prices in each salesman's territory or to

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[5] Donald G. Scott, "Controlling Salesmen's Non-Automotive Travelling Expenses," *Quarterly Journal of Commerce*, Vol. XIV, No. 1 (London, Canada: University of Western Ontario), p. 58.

experiment by setting the maximums at somewhat lower levels than the actual expenses of the past.

If salesmen can be made to recognize the need for expense reduction, limitations of this sort may be accepted in good spirit and the desired result achieved. Apparently, many companies now believe that this is the most desirable plan of attack. In a Dartnell Corporation study of 1946 which surveyed the practice of 400 companies on traveling expenses, almost one-half of the group limited the amounts to be spent on rooms and meals.[6] There is some evidence to support the conclusion that limitations on expenses are preferred by sales executives over prohibition of expenditures on fringe items such as tips, valet service, entertainment, and the like.[7] Whether this attitude is a reflection of the desires of salesmen is in doubt. While hearty cooperation can hardly be expected in expense reduction, still resentment and ill will may be obviated by following the plan least distasteful to the sales force.

This plan has many advantages over other plans, among which are the lesser likelihood that unduly high expenses will actually be incurred or that expense accounts will be padded. There also may be less likelihood of friction developing between salesmen and company executives. Fewer items are likely to be questioned after expense reports have been turned in to the office. The absence of friction depends, of course, in large measure, on the adequacy of the maximums established for each territory. Obviously, the maximum expenditures permitted should not be so low that a salesman cannot live respectably within them. In that event, he would be irritated each time that his *necessary* expenditure was greater than the amount allowed. While there may be some tendency for salesmen to report the exact amount of the maximum allowance rather than a lower amount actually spent, it should be recognized that, if the allowances are set correctly, there should not be much variation between them. All in all, this plan has much to commend it. Criticism of it can usually be overcome by more effective administration.

Flat Expense Allowance per Week or Month. Under this plan, each salesman is given a certain amount to cover all expenses over a given period. It is an adaptation of the familiar per diem arrangement. It is based upon the assumption that the expenditures necessary, if the salesman is to do effectively the tasks assigned to him, can be predetermined. There are the further assumptions that both the market and the procedures for cultivating it are known, and that a largely standardized procedure as to itinerary, calls, and other routines, based on time and duty analysis, can be established. If selling is largely a routine affair covering the same sector of the market and the same accounts

[6] *Traveling Expenses of Salesmen.*

[7] Scott, *op. cit.*, p. 60.

repeatedly, there is no reason why expenses cannot be predetermined and standardized. This suggests the major feature of the flat allowance plan—that it places control, to a greater extent than other plans, in the hands of management rather than in those of the salesman. Deviation from suggested procedure is not welcomed and thus not provided for in expense money. Periodic study is needed, however, because as conditions vary—for instance, price increases or market changes—the old expense allowance may no longer be reasonable.

Under this plan, as under the expense limitation plan previously discussed, there is still some possibility of the salesmen securing a rake-off on expense allowances, but it probably is less in the case of flat allowance because the amounts necessary are likely to be calculated with more exactitude. Other advantages are that the work on expense accounts is eliminated, disputes over expense are obviated, and selling costs are known in advance. Moreover, expenses assumed by a company are held near the minimum needed for effective work.

In the attempt to establish flat allowances, major reliance may be placed on expense reports of past periods or upon current investigation with or without the assistance of salesmen. In one particular instance, a food packing company standardized the routes of its salesmen; required expense reports under a no-prior-limitation plan; analyzed these reports over a twelve month period; and, on the basis of the data collected, together with some current information, established flat expense allowances. In general, the expense allowances were about 10 per cent under the expense totals previously incurred. Whether this procedural pattern is an acceptable one depends very largely on the reliability of the data on previous expense reports as an expression of the real need for expenditures. It also depends upon its variability as an expression of need for expenditures between members of the sales force. If company executives believe that there has been a goodly measure of expense account padding and that some salesmen have been much more guilty of the practice than others, then reliance on these data is open to question.

Management may feel that it is preferable to start anew and make a thorough investigation, perhaps territory by territory or region by region, of prices of services which the salesman needs in the field and, on the basis of these studies, to establish expense allowances. After preliminary work, it is desirable for the sales manager or branch manager to consult at length with each of the salesmen. Presumably they know their own territories better than people in the home office and can furnish needed information. Furthermore, if the allowances are established co-operatively in good spirit and a mutually satisfactory figure arrived at, later difficulties are unlikely. Little reliance on past expense reports has one further notable advantage. It is that the salesmen are not confronted to a like extent with evidence on expenses

incurred, perhaps in unreasonable amounts, during earlier periods.

It was noted previously that the flat expense allowance is used by only a small proportion of all concerns, among them food and drug manufacturers and wholesalers. As these concerns are large employers of routine salesmen, the proportion of all salesmen who work under this plan may be considerably greater. It should be recognized, nevertheless, that the plan is not well adapted to many types of sales work. The extent of control which it provides, while perhaps desired, cannot reasonably be exercised in view of management's inability to know, at all times, just what the salesman should be doing in his territory. A system that allows unusual expenditures, if they seem reasonable in view of probable results, is better, therefore, than a flat expense allowance in the sale of products of irregular or infrequent purchase, or for educational or missionary sales work.

Legitimate Expenses.[8] A legitimate expense was previously defined as one which the salesman would not have incurred if he had not been traveling for his company away from home as a work assignment. It was noted that certain living expenses common to both work abroad and at home, notably meals, are defrayed by companies because the expense is so much greater when traveling. Hotel rooms are an additional expense and, therefore, are always defrayed. Laundry, cleaning, and pressing are in a somewhat different category, for they are always needed wherever the salesman works, but the expense, like meals, is considerably greater if a man is on the road. According to one study, about 60 per cent of firms stand these expenses.[9] Tips, taxi fares, and communication charges are usually defrayed without question. Entertainment of customers is permitted by over 90 per cent of the companies included in the study mentioned, but special approval is often required. Other expenses—among them club dues, gifts, trade association membership, periodicals, and postage—are infrequently permitted on company account. Often expenses such as barber service, magazines, smokes, and evening entertainment are considered as personal expenses and are specifically prohibited.

In this connection, it should be recognized that the legitimacy of expenditures on company account varies with many factors—for instance, time on the road. Some expenses, notably laundry and pressing, should be defrayed by the company if a salesman is on the road for many weeks, but not if he goes out now and then for a few days at a time. It varies also with the type of product and the caliber of salesmen. Entertainment cannot easily be justified under conditions of routine selling, but it may be highly necessary in the sale of high-value equipment or luxury goods. It may be the usual practice in the sale of certain lines, so much so that the lack of it might seriously

[8] Transportation expenses will be considered in Chapter XXVI.

[9] *Salesmen's Compensation Plans.*

FIGURE 24

SALESMEN'S REPORT FORM

Form 1118

January 8, 1939.

SALESMAN.....

Started This Morning From..... Staying Tonight in.....

Miles Between ..... Mileage at 4c or R. R. Fare $.....

Miles Driven in Town on Company Business ..... $.....

TOWNS WORKED	Furn. & Chests	Refrs.	Ranges	
.....	$	$	$	Daily Allowance } $ .....
.....	$	$	$	
.....	$	$	$	Total Expense } $ .....
.....	$	$	$	
.....	$	$	$	
Totals.....	$	$	$	Reserve $ .....

Send Expense Check for Past Week to .....

Total Orders	Ranges	Mileage Credit	Expense or Reserve	Pay

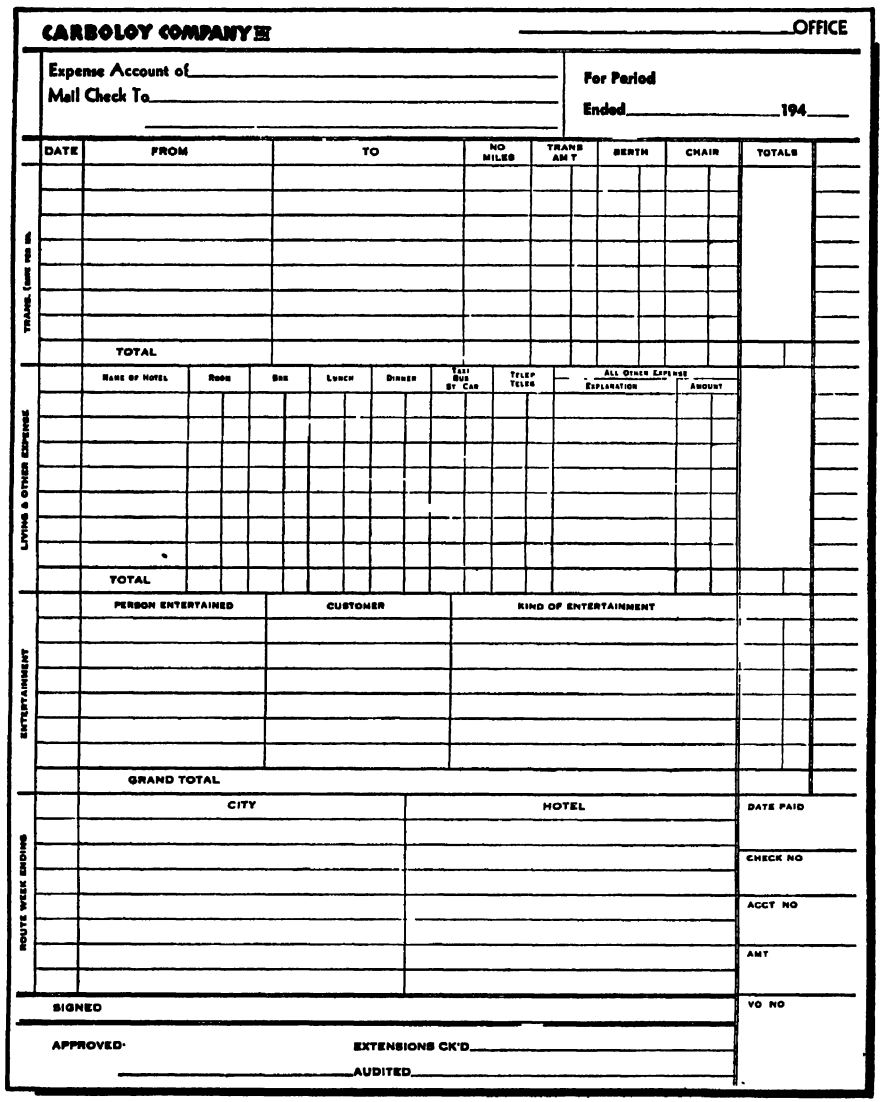
jeopardize a salesman's opportunity to make sales. Also, when salesmen are of sufficient caliber to call on executives, the courtesy of paying for meals, perhaps for tickets to athletic events or shows, may be expected and may ultimately yield large dividends in sales volume. The test should always be the legitimacy of an expenditure on company account in view of all the circumstances involved.

Rewards for Expense Economy. As one feature of incentive schemes of various sorts, some incentive may be given for the attainment of expense economy. In one particular instance, salesmen were given 25 per cent of the amount by which they reduced their expenses over a previous representative period. The branch manager was also given a reward for the average reduction in expenses achieved by the salesmen under his supervision. While such inducements to greater economy may be effective over short periods, they are questionable on at least two major bases: first, that they are wrong in principle; second, they lead to unfortunate practices on the part of salesmen and thus jeopardize company interests. These two accusations, if supported, constitute a severe indictment of any plan.

An incentive of this sort is a tacit admission that salesmen have been spending more than they should or that they have been padding expense accounts. Then management, instead of attempting to eradicate such practices, directly rewards the salesman for doing something which he should do under any circumstances. The more a salesman has mismanaged company funds previously, the greater the possible reward. One wonders if a salesman who has been padding his expense account would not continue to do so rather than put himself on re-

FIGURE 25

SALESMEN'S REPORT FORM



(Front)

cord as wasteful or dishonest and, at the same time, substantially reduce his returns from the practice. Thus it is not likely that a reward for expense reduction will have the desired effect on the principal offenders. If the salesmen had been careful in their expenditures and padding of expense accounts did not constitute a serious problem, a reward for expense reduction might induce men to make petty economies which, in fact, were not in their companys' best interests. It is likely that those expenditures which might have a favorable effect on

FIGURE 25—*Continued*

INSTRUCTIONS

1. TRANSPORTATION

(a) Enter charges for railroad fare and pullman charges separately in spaces provided.
(b) State exigency requiring the use of an "extra fare" train, and show under "railroad fare" the amount of the extra fare as a separate item.
(c) Include fees for checking or handling personal luggage, fees to train porters, etc., under "Other Expenses."
(d) When a trip is taken by automobile the transportation expense should be so described. In this case, railroad fare or mileage, whichever is lower, is allowed. Exception to the foregoing is in cases where there is a distinct advantage to the Company in the use of an employee's automobile in preference to rail transportation. In such cases rates not to exceed standard rates per mile, will be allowed.

2. LIVING EXPENSES

(a) Enter each day's expense separately.
(b) Always state NAME of hotel.
(c) Guests' meals must be charged separately under "Entertaining Expenses" (see paragraph 4-b).
(d) Include waiter's fees in cost of meals and other gratuities under "Other Expenses."
(e) Living expenses while at headquarters will not be allowed.

3. OTHER EXPENSES

(a) Telephone: If long distance, give name of party called.
(b) Telegrams: State to whom sent.
(c) Stenography and typewriting: State the necessity therefor.
(d) The description "Incidentals" or "Miscellaneous" must be avoided; details are always required.
(e) Charges are not allowed for bootblack, barber, magazines, cigars and other similar expenses of a personal nature. Charges for laundry and valet services will be allowed only in special instances when authorized by the department head. In these instances, the department head's specific approval opposite such items in the expense account is required.

4. ENTERTAINING EXPENSES

(a) Always state: Customer's name.
Name or names of representatives entertained.
Nature of entertainment.
(b) In the case of meals, include the total cost of the same as "Entertaining expense" and check the corresponding meal in your "living" account.
(c) Expense of entertaining employees of the Carboloy Company will be allowed only in special instances when authorized by the department head. In these cases, the department head's specific approval opposite such items in the expense account is required.

5. GENERAL

(a) In the case of any unusual amount or unusual item included in an expense account, explanation should be shown on or forwarded with the account.
(b) It is required, without exception, that items of expense be clearly and correctly described and that in all instances they represent moneys actually expended in the interest of the Company.
(c) The substitution of an item of expense NOT actually incurred, for another item which WAS incurred is strictly prohibited. For example, it is not permitted to enter a charge for hotel accommodation, when no such expense was made, to offset a corresponding amount which may have been expended for meals, entertainment, or other expenses. When the latter are legitimate expenses they should be entered under their proper heading and explained.
(d) No part of the expenses of a member of the family of a traveling employee is allowable and in all cases when an employee is accompanied by one or more members of his family, the expense entered in the account must be so apportioned as not to exceed the usual charge for accommodation or expense which would have been incurred if the employee had traveled alone.
(e) Expense accounts will be carefully reviewed in the office of the Treasurer and special investigations made in the case of accounts of unusual or extravagant character.

Treasurer.

(*Back*)

future sales, rather than upon present sales, would be avoided. If expenses are too high, there are other ways to effect reduction, among them upper limits on specific items, which are to be preferred.

Expense Report Forms. Expense report forms vary markedly in

the provision which they make for reporting expenses of various sorts, in the comprehensiveness of the instructions which may be included, and in matters of form and layout. Figure 24 (p. 701), in use for many years by the Cavalier Corporation, provides for a relatively simple, all-purpose report. It will be observed that it is a combined call, sales, and expense report. Evidently, the company uses a flat expense allowance which eliminates expense itemization. This form has been used for over a decade without much modification.

Most concerns, however, wish much more complete information about salesmen's activities and expenses than is provided by the form just discussed. Figure 25 (pp. 702–3) is an excellent example of the type of expense report used in a plan of advances, expense reports, reimbursement, and no prior limitations for specific items. Note carefully the instructions on the reverse side which are an excellent feature of the report. In view of these instructions, the salesman can have little doubt of his company's policy on salesmen's expenses. Note likewise that entertainment expense has been isolated and that space is provided for a statement of planned itinerary. As this report is expected in the district office on the Monday morning following the week to which it pertains, the district manager will know in sufficient time where the salesmen will be during the following week.

SUMMARY

Salesmen's reports are an integral part of the whole field of control of sales operations. They are an important means of communication, and one which often saves the time and expense incident to personal contacts. As the number of salesmen employed increases and the territory covered expands, reports are needed to an increasing extent if control is to be exercised effectively. In regard to expense, control is particularly necessary, for the amounts involved are always substantial and lack of control may seriously affect the level of profits. The essential problem is to plan and administer expense control and expense reporting in such a manner that the morale, and thus the productivity, of salesmen is maintained and the interests of the company are still protected. The planning and administration of a reporting system is an important part of the sales personnel task, and one which merits an active and continuing interest on the part of management.

REVIEW AND DISCUSSION QUESTIONS

1. Attempt to state concisely the essential problem involved in communication between salesmen in the field and the home office.
2. What are the principal objectives sought in requiring periodic reports from salesmen? Characterize the type of situation in which salesmen's activity reports are particularly needed.

3. An analysis of salesmen's attitudes toward their jobs indicated some dissatisfaction with the reporting requirements of their companies and a desire for less reporting work. What are the probable bases of such an attitude? How might it be overcome without sacrificing the benefits secured from communication of this character?
4. Review the criteria suggested for judging a reporting system. Can you suggest other criteria which, if considered, might be of aid in reaching sound conclusions?
5. Should the salesman be expected to prepare and keep up to date a field operating summary or a master customer call list, such as those previously described, or should this responsibility be assumed by the home office or a branch office, followed by frequent communication with the salesman to keep him fully informed?
6. What criteria might be useful for judging the legitimacy of particular expenditures or types of expenditure of a company's funds by salesmen?
7. Attempt to relate each of the expense-control methods previously discussed to situations in which the control method would prove to be an acceptable one.
8. If the executives of a company felt that salesmen's expenses could and should be reduced, which of the following procedures would you favor: (*a*) a more careful review of expense accounts in an attempt to discover and eliminate padding; (*b*) greater itemization; (*c*) a top limit on expense items not previously limited; (*d*) disallowance of items previously allowed, such as tips, entertainment, gifts, and laundry and valet service; (*e*) incentives for expense reduction with monetary rewards? Why?
9. What criteria should be kept in mind in designing report forms? With these criteria in mind, appraise the reporting forms presented in this chapter.
10. Attempt to formulate a brief but comprehensive statement of a defensible policy in reference to salesmen's reports.
11. One of the rubber manufacturing companies uses an expense budget plan for control of its salesmen's expenses. The budget is determined as follows: (1) each salesman determines the route schedule for complete coverage of his territory for the year ahead; (2) these schedules are approved by the division manager and the home office; (3) automobile allowances are determined by the Runzheimer Plan (see Supplementary Readings, chap. xxvi); (4) hotel allowances are determined by averaging the hotel rates in the cities where the salesman stays from the latest hotel directory; (5) food allowances are determined by averaging costs in several divisions of the company which work the same territory.

    On the basis of these predetermined costs, an annual budget is established of thirteen four-week periods for each salesman. Allowances are checked at intervals against expense vouchers for a further check on expenditures. If expenditures are substantially higher than planned, it is an indication that the salesman is routing himself

ineffectively or doing something else which needs review and possible correction.

Appraise this method of controlling salesmen's expenditures.

12. A concern which had done considerable experimenting with salesmen's expense-control plans finally adopted one which resulted in two years of the lowest sales expense in its history. The plan adopted was the simple one of making each branch office responsible for the expenses incurred by its salesmen. A sales-expense ratio is computed for each branch by the home office; likewise an average figure for all branches, each month. These data are sent to all branches as soon after the end of the month as possible. Data for many previous months are also reported so that trends in expense in relation to sales can be noted. Through these data, each branch knows every month just where it stands in relation to every other branch and to all branches as a group. As a result, without any pressure from the home office, branch managers keep their expenses in line. A manager who has a high or an increasing sales-expense ratio will get his men together and, without prompting, attempt to reduce expenses so that his ratio is not far out of line with those of other branches.

What is the major premise behind this plan? What justification can you discern for placing the responsibility for expense control on branch managers? Will this plan of expense control keep salesmen's expenses at a reasonable minimum?

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Chapter XXIV

STIMULATION OF THE SALES FORCE

A PART of the work of supervisors, perhaps the most important part, is to keep the morale of salesmen at high level. Unless something is done more or less continuously with this objective in view, morale will flag and, with it, sales volume. Morale building and maintenance is important in reference to almost any type of work activity; it is particularly important in selling. The reasons therefor are not difficult to adduce, for they lie in the nature of the selling task. Essentially, it is one which is particularly subject to discouragement and frustration, especially during the apprenticeship period. Often prospects assume a disinterested attitude, if not an antagonistic one. Salesmen, day after day, must attempt to overcome these negative attitudes and to do so requires much mental and physical effort. Whether things go well or badly for the salesman, it is important that he keep at the sales task continually, and in good spirit. This is partly a question of the stimulation and backing which he gets from those in supervisory positions.

Supervision and stimulation of the sales force are very closely related in practice. Action is usually taken with these two objectives jointly in view. Essentially, there are three broad means of supervisory and stimulatory effort: first, by contacts with supervisors, branch managers, or other sales executives individually or in group meetings; second, by communication through letters, publications, or other mailed pieces; and third, through incentive schemes, by which greater opportunity for earnings or advancement may be achieved. Some of these means have supervision as the primary objective, stimulation as a secondary one. Coaching on the job, joint sales work, supervisory meetings at the branch level, correspondence, and bulletins—all of which have been discussed—can be used for either purpose, but often their primary objective is supervision, including training. Day-by-day contacts with members of the supervisory staff may be either supervisory in character or stimulatory, depending upon the specific situation which gives rise to the meeting. Other means commonly used are in a greater measure stimulatory in that the chief purpose in mind is to improve morale and generate enthusiasm for the company and its products. Sales conventions, both

national and regional; sales contests; sales quotas of an incentive character; incentive methods of compensation; and prospects of promotion all serve to stimulate effort and are likely to result in better performance if they are handled effectively by management. Each of these will be considered in turn.

SALES CONVENTIONS AND CONFERENCES

Many concerns feel that there is no effective substitute for a sales convention at least once each year, when all salesmen are brought together at company headquarters to meet with company executives for a review of past accomplishments and a discussion of plans for the future. Attendance at these meetings usually is not confined to salesmen, but includes supervisory personnel, home office sales personnel, representatives of the company's advertising agency, and, perhaps, others who serve the company in specialized capacities. Often attendance at conventions is limited to those salesmen who have been particularly successful—for instance, those who have exceeded their assigned quotas or have distinguished themselves in some other manner. Conventions may be held solely for supervisory personnel who will later communicate the ideas presented to the salesmen whom they direct. In addition, conventions are often held for dealers and for their key personnel. The procedures followed are much the same, regardless of the responsibilities of those who attend. The objectives are much the same in that explanations are given, contacts are made, and enthusiasm is generated for the company and its products.

National versus Regional Conventions

While one large convention of all personnel active in sales work has much to commend it, such a convention may not be feasible in view of cost considerations and the difficulties inherent in handling a large group satisfactorily. Therefore, if a company has a large sales force or a large number of dealers widely distributed geographically, regional conventions or conferences may be held at strategic points throughout the country as a substitute for a national convention. The relative merits of national versus regional conventions have often been debated without definite conclusions being reached. Each has advantages and disadvantages, and, under varying circumstances, one or the other may appear more attractive. An annual convention can be put on in such a manner that salesmen may be greatly impressed with the company, its products, and the future opportunities in their jobs. Top executives can be seen, heard, and perhaps even conferred with during the convention. Information on a company's plans which comes directly from those individuals who make major decisions

carries more weight than when secured from people lower in the chain of command. In addition, if the convention is held at the location of manufacturing activities, trips can be arranged through the company's factories, thereby enhancing knowledge of products and manufacturing procedures.

In contrast, the regional conference is likely to be less costly, for transportation costs are substantially reduced. In a sense, the company goes to the salesmen or dealers, rather than they to headquarters. In that event, comparatively few men travel long distances rather than many. Moreover, smaller numbers can always be handled more effectively, and there is a greater likelihood of active participation by salesmen. Perhaps there are regional problems which would not be dealt with at a national convention but which would be most appropriate for a regional convention. Conventions and conferences are always disruptive of day-to-day operations. Still, it might be argued that within a region they would be less disruptive than national conventions at some distant point. On the contrary, it is doubtful whether regional conventions are likely to have as great inspirational value as national conventions even under the best of circumstances and this, in the opinion of the writer, is their most important single objective.

When, as in this instance, there are advantages and disadvantages to either alternative, the one with the greatest merit, in view of the particular situation in which a company finds itself, should be chosen. If a company has a relatively few high-salaried salesmen, perhaps not more than 150 or 200, the costs of bringing them in to the home office will not be excessive in relation to their earnings and their importance to the company. In contrast, if a company has many salesmen of lower caliber, widely distributed locationally throughout the country, these costs might be excessive and regional conferences would then be in order. Then it is desirable, as so often happens, to distribute company executives among crews which, after thorough preparation, appear before regional conferences at many locations. In one instance, that of an electric refrigerator manufacturer, three crews were established of nine men each, all from the home office. One of these crews put on conferences in the Mountain States and on the Pacific Coast, the second on the East Coast from Boston to Miami, and the third in the central portion of the country from Omaha south to San Antonio and Houston. In all, twenty-eight regional conferences were held over a period of a few weeks just prior to the season of heavy sales.

Content of Convention Programs

While conventions differ markedly in the means used to stimulate and train salesmen and dealers, there are usually previews and dem-

onstrations of new or improved products with emphasis on customer service, announcements of advertising and other promotional efforts in forthcoming periods, demonstrations of how to sell effectively, announcements of promotions and awards for particularly good performance, announcements of miscellaneous character, factory visits, and an opportunity to mingle and become acquainted with company executives.

Product Previews and Demonstrations. Particularly in those industries which, as a matter of policy, introduce new models annually, conventions are the occasion for a preliminary showing of new models or product improvements to salesmen and dealers. The features of the new models are carefully explained, and their value as selling points roundly stressed. Every effort is made to emphasize that the needs and desires of the consumers are met by changes in the product and that the company has a more salable product than formerly and, also, a more salable product than those of competitors. The general idea which speakers on products try to drive home is that the company is doing its utmost to furnish the sales force with an excellent product—one which will have a strong appeal to consumers and will thus sell with relative ease. This idea is often expressed by the assertion that a company must sell its salesmen and dealers on its products as a first step in a sales program. If salesmen and dealers thoroughly believe in their company's products and are enthusiastic about them, active solicitation is almost assured.

Announcement and Review of Promotional Efforts. Much time is usually given in conventions to a complete review of what the company is doing in advertising and other forms of sales promotion and how this aids the salesmen. The impression created is that the company is doing its share in promotional activities and that the salesmen must do their share. Advertising agency people are usually given the job of reviewing campaigns in process or those contemplated for advance periods. The promotional themes and slogans to be stressed in campaigns and in particular advertisements are reviewed and dramatized. If the company is engaging in all types of promotional effort—magazine and newspaper advertising, direct mail, radio, billboard, perhaps television—the sheer spread and weight of the promotional effort become impressive and convincing. If a company is successful in this part of a convention program, salesmen and dealers begin to feel that, with all the help given by the company, they can hardly fail to be effective in their particular part of the general selling program. If they gain assurance that the company, in the persons of top executives and home office and supervisory staff members, are solidly behind them, their morale is strengthened. They become convinced that selling the company's products is, in fact, group effort in which responsibility is shared with others.

Demonstrations of Selling Techniques. Something is usually done

in conventions to stress good selling methods. The group attending is often too large, and the time available too short, to do much by way of training. Still, continuity is desirable and the next general topic after attention to the product and to company effort is, logically, the work of the salesman. The general theme is that the salesman has an excellent product to sell, that the company is doing everything possible to aid him, and that his job is to carry through by doing certain tasks in the most effective ways. Short skits are often presented portraying sales interviews in an instructive yet amusing manner. Films may be shown portraying the day-by-day work of the salesmen with emphasis on tasks usually slighted or neglected or on the conduct of interviews. Demonstration of sales tactics and procedures is likely to take precedence over talks on selling methods by a company's executives, or to be used together with such talks. It is, in part, a question of maintaining interest. Many talks, one after another, even though they are well presented, become boring to most individuals unless they are interspersed with films, dramatic skits, and entertainment features.

Announcements of Promotions and Awards. Conventions provide the opportunity for honoring those people in the organization who have done an outstanding job in sales work. Convention attendance may be limited to those salesmen who have exceeded assigned sales quotas or who have reached a certain absolute volume of sales. Then it is considered an honor to be invited to attend at company expense. Those salesmen who have exceeded quota may be invited to become members of a 100 per cent club or some other such group. Continuity in membership in these organizations over a certain span of years may be rewarded by special gifts. Recognition may likewise be given for a high sales volume in particular products, improvement in performance, or success in securing new dealers. Of course, there are many bases upon which superiority in performance can be judged and awards presented. Recognition, it should be emphasized, means a great deal to salesmen, and particularly so if it is done publicly before many others engaged in like professional activities. It is an inspiration to him, and likewise to others, who see the possibility of such recognition for themselves.

Miscellaneous Announcements. When a company has its salesmen or dealers together, it provides an excellent opportunity for announcements of any forthcoming changes in policy, product, or procedure which may concern the field selling forces. In any concern with an active and forward-looking management, there is always something of general interest in the planning stage. For instance, a change in discount policy may greatly affect the salesman's work, and, if more restrictive than formerly, sales may be more difficult to make to certain customer classes. Still such a discount policy may be forced upon a company in order to comply with price legislation or in view of

recent legal decisions. Oral explanations of such changes, and, particularly, from top executives, are always more effective than written explanations, although something in writing may be necessary to supply details and specific instructions. Through these miscellaneous announcements and explanations, salesmen may come to feel that management is taking them into its confidence and, as a result, the feeling of unity and of loyalty to the company may be increased.

Factory Visits. If conventions are held at locations proximate to production facilities, visits to factories are usually arranged for and occupy a considerable part of the time available. So often, through these factory visits, it is possible to find the right explanation for product features which were causing the salesmen difficulty. It may be a question of how a machine is assembled, the physical interrelationship of its parts, or of what a machine can be expected to do in view of its physical construction, or, perhaps, of why it has certain limitations in performance. There are very few salesmen, even experienced ones, who cannot profit by factory visits. Not only is specific information secured, but also interest is aroused and greater confidence is created in the products which they sell. It cannot be reiterated too often that there is no substitute for a thorough knowledge of products, and, if they are at all complex, some time in the factory is almost a must for salesmen. Visits at the time of conventions are not sufficiently long to give a complete knowledge of manufacturing methods but they are, nevertheless, helpful.

Opportunity for Contacts with Executives. Contact with top executives through conventions also means much to salesmen. They like to see, hear, and converse with those people who are in control of the company's operations. From that time forward, the names of these people mean something when they are attached to instructions, letters, and promotional literature. A certain unity and friendliness is achieved between salesmen and home-office executives. Perhaps they will develop confidence in the leadership of company executives and come to feel that they will keep the salesmen's interest in view, particularly in matters of compensation and opportunity for advancement. If affirmative attitudes of this character can be inculcated in salesmen through the medium of sales conventions, significant progress in personnel relations has been achieved.

Methods and Procedures

In order to have conventions successful, they must be both interesting and stimulating. Salesmen expect a pleasant experience and are disappointed if a convention is a dull affair, but what is dull for one group may not be for another. This comment suggests the somewhat obvious, though often neglected, consideration that sales convention content should be well adapted to the particular group which will

attend. A group of high-caliber salesmen may be brought together for a careful and analytical discussion of a company's marketing problems. While the meeting may be called a convention, it is more in the nature of a study conference. For other sales groups, an entirely different sort of procedure is more appropriate. The remark that the company "put on a good show" is the sort of approval to be desired. It does not necessarily imply that the program was not informative and stimulative, but rather that it was imaginatively devised and carried out with verve and enthusiasm. The sort of methods used by one company is indicated by the following quotation:

> "Freezing" a series of wooden blocks in a big cake of ice representing "sales resistance"; blending the music of a symphonic orchestra with an address calling for the help of all in the sales program; interrupting the program with a policeman on the trail of the thief of time; keeping control of time by signaling with a small traffic light that a speaker's time is up; homemade and professional moving pictures; slide sound films—all go to illustrate points and to keep the program moving and hold the interest.[1]

There are all sorts of devices which can be used to vary the program and make it interesting. Lighting effects, dramatization through the use of short skits or playlets, sound and slide films, decoration of rooms in which meetings are held, group singing, banquets, entertainment, and even what might be termed ballyhoo or horseplay—all have their legitimate places in convention programs.

Many people, college students in particular, are critical of what might be termed the ballyhoo characteristics of sales conventions and conferences. They do not see the necessity, or even the desirability, of such an approach. Perhaps to them such an approach appears a bit undignified or neglectful of those activities which seem more clearly in line with the serious objectives of a convention. While a convention admittedly has serious objectives which must be kept in mind, important points can be put across to an audience in an interesting and forceful manner through the devices mentioned above. Salesmen are away from their usual occupation and not in the mood for studious concentration. The diet must be palatable to them if they are to get anything of value from a convention. While ballyhoo and horseplay admittedly can be overdone, and often are, still they have their place in convention procedure.

Talks at conventions should be first class in every respect. Above all, they must be interesting. Monotony can be relieved by frequent stories, many illustrations, and reference to charts, graphs, and other exhibits. Very few people can hold the interest and attention of salesmen over forty-five minutes, and thirty minutes is a more suitable

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[1] K. N. Merritt, "Inspiring Enthusiasm at Annual Sales Conferences," *Executives Service Bulletin*, Policyholders Service Bureau, Vol. XIX, No. 8 (New York; Metropolitan Life Insurance Company, 1941), p. 8.

length for most talks. Inspirational talks, in particular, often fall flat unless they are delivered by someone with great facility in public speaking. As salesmen wish to see and hear top executives, the ability to speak effectively is an important requisite for them and one which should be cultivated.

Planning the Convention

Any group meeting, to be successful, requires painstaking and methodical planning. Selection of topics and speakers, arrangements of a physical character, questions of timing in order to maintain interest, the employment and instruction of outside specialists—all take considerable time and effort on the part of company personnel. When these various steps have been taken, it is well to check up periodically to see whether each person who has been given responsibility has planned his particular assignment well. This is important, for when many people are concerned in a group effort, it cannot be assumed that each person is meeting his responsibilities effectively and on time.

It is desirable to go through the whole convention procedure before a home-office group a number of days in advance simply as a matter of precaution and then to revise the program, if such revision seems desirable. Like any dramatic production, a convention program requires rehearsal. In one particular instance, for one whole day before a convention, all participants were put through their paces. Rehearsals started at nine o'clock in the morning and finished at nine o'clock that night, with a further rehearsal the next evening for those appearing on the second day of the convention. Unless the cast is willing to spend long hours rehearsing, it is not wise to attempt dramatics at sales conferences. Often professional actors are used in order to be assured that skits and playlets will be presented effectively.

After a sales convention has been held, it is desirable for home-office people to review the work of the convention and the methods used, while they are still freshly in mind. An expression of opinion as to the strong and weak points of the convention may profitably be elicited from salesmen or field supervisors. There is no better time to review them than the week after a convention has adjourned. Such a critical analysis of a convention is the first step in the planning for later conventions.

SALES CONTESTS

Sales contests are habitually used by many concerns, particularly those which handle supplies and consumers' goods. The word "contest" connotes rivalry and competition among the members of a group with appropriate recognition or awards for one or more individuals who are most successful. Contests of any sort, particularly among

Americans, are usually highly stimulative in character, if there is a reasonable chance afforded for winning. Sales managers have recognized that this willingness to compete with others, together with the desire for recognition and for an increased standard of living, can be used to good purpose in the selling of goods. They have also found that contests lend themselves to variation to a marked degree, thereby enabling a company to maintain interest and effort on the part of salesmen. They are, therefore, a flexible instrument for use by management in the stimulation of the sales force.

There are two general types of contest, or at least the word "contest" is used in connection with each. In one type the salesman competes with himself in the sense that he is given an incentive to improve his past record of performance. In the second type, he competes with other salesmen—not directly as in a game of tennis, but as in medal play in golf. Each person works independently over a period of time. Their performance on one or more bases is then measured and compared to determine the winner or winners. If a contest is defined as a struggle for superiority, each type of contest can reasonably be included under the definition. If, in contrast, the concept of rivalry is considered to be the denotation of the word "contest," competition with one's self is not included, for rivalry is not present. While this distinction may appear to be wholly academic, it is an important one, and one which should be kept in mind in devising sales contests. The question involved is whether the incentive for additional work by a sales force will be as great if rivalry is not provided for in the contest structure.

There is some evidence to indicate that 10 to 15 per cent of business concerns use sales contests as a stimulatory device. Some concerns use them habitually. A recent study of the practice of 418 companies in a wide variety of industries indicated that their use was most common by companies which handled foods, drugs, beverages, petroleum products, and in the printing and publishing industry.[2] In contrast, they were little used, if at all, in the building material, paper, and textile industries. Some sales executives feel that contests are not well adapted to their products, methods of selling, or sales policies. Others defend them strongly. As few managerial devices are subject to as wide a diversity of opinion as sales contests, the reasons advanced for their use, and the bases of criticism, will be discussed in some detail.

Objectives of Sales Contests

While numerous specific objectives may be listed, there is one overall objective of major significance. It is that sales contests enable man-

[2] National Industrial Conference Board, Inc., *Salesmen's Compensation Plans* (Studies in Personnel Policy, No. 81) (New York, 1947), p. 23.

agement to focus the attention of the sales force on certain specific objectives which are considered of greatest importance at a particular time. Among these objectives are the following: to increase sales of the entire line; to increase sales of particular products which for some reason are not moving satisfactorily; to introduce new products; to obtain new accounts; to aid salesmen in making their quotas; to counteract seasonal fluctuations in sales; to secure a greater measure of dealer co-operation; and to accelerate collections.

While this list is not exhaustive, it does indicate some of the particular fronts upon which management may wish to make special effort because of changes in a company's competitive position or in general business conditions. For instance, an automobile company utilized a contest to prevent a slump in the sales of older models prior to the introduction of a new and improved model in a lower price class. In another instance, the management of a concern which sold cash registers and credit systems became convinced that a business revival was in the offing and that unusual activity on the part of salesmen, particularly in demonstrations, would be most fruitful. Therefore, a contest was devised which featured credit for demonstrations as well as actual sales.

The principal objective may be only the accentuation of effort on the part of salesmen rather than its direction. While these two are usually combined, it should be emphasized that the latter objective—that is, simply to increase the time and effort expended by salesmen—may be uppermost in the mind of management. It has been the experience of some sales managers that regular compensation, even though it contains incentive elements, does not bring out salesmen's best efforts from day to day. Through contests, the reserve capacity of salesmen may be tapped—a capacity which neither the salesmen nor the company, in particular instances, suspected was present. After contests, the winners have often made sales from that time forward on a higher level than previously. Their enthusiasm has been aroused and their latent ability has been uncovered to the benefit of both the company and the men.

A further objective may be to increase the morale of the entire sales force. When competition is between groups of salesmen, a greater unity in each group may be engendered—an "esprit de corps" which has favorable results from that time forward. Competition among sales offices or branches, possibly among sales regions, are cases in point. Often individual and group competition are combined in a single contest with good results. If a contest is well devised, all salesmen may benefit, whether or not they are prize winners. In one particular concern, an annual contest is justified solely because it relieves monotony, injects some fun into the selling process, and offers management a good opportunity to approach the sales force with some-

thing new, interesting, and dramatic. There is a revivifying effect on a sales organization, if a contest is imaginatively conceived and carried out with verve and enthusiasm.

Variables in Contest Structure

The bases of variation in sales contests are numerous, and thus the extent of variation in those actually used is only limited by the imagination and inventiveness of home-office sales executives.

Objectives. As noted previously, the objectives may be single or multiple, simple or complex, depending upon the attitude of management toward contests and the needs of the moment.

Time and Duration of Use. A contest may be timely, in the sense that the opportunity to attain the objectives which management has in mind apparently is great, in view of business conditions, the competitive situation, or seasonal demand conditions. Some sales managers believe that a contest just at the beginning of a business revival or at the lowest point in a seasonal demand pattern is likely to be most effective. A contest is then used to stimulate demand when conditions suggest that buyers will be more receptive than formerly. Other executives may feel that contests should be used to overcome seasonal variations. Contests would then be used on the downswing of a cyclical or seasonal movement.

In regard to duration, it is a question of how long interest and enthusiasm can be maintained. Potential awards which are deferred too long apparently lose their appeal. While there is a wide range in duration, contests usually run from two to four months. However, at times, contests are carried on continuously under a plan whereby salesmen accumulate points toward merchandise prizes.

Qualifications for Participation. Companies at times place a minimum amount of sales volume as a lower limit to qualify for participation. In one particular instance in the insurance field, an agent had to secure $100 in initial premiums on new business, or ten applications for new policies, before he was officially entered in the contest. An incentive was provided for getting into the contest, for in this instance every participant received at least some prize money.

Bases of Participation. As mentioned previously, a contest may be between individuals; groups of individuals, as in contests between branches; or it may be centered in each individual, through competition with past performance. Furthermore, a contest may be between *all* of a company's salesmen, or salesmen may be classified in some manner so that people with approximately equal performance and ability or equal opportunity for sales are pitted against each other. Then, there are a number of contests among the members in each of a number of different groups. This question of equality of opportu-

nity thus achieved is important and will soon be discussed in some detail.

Bases for Scoring. Credit may be given for performance on only one base—for instance, on sales volume or volume in reference to quota—or participants may accumulate points for the results achieved in a number of different activities. In one particular instance, stamps for use in the procurement of merchandise prizes were awarded for performance in eight different categories—among which were business from new accounts, number of new accounts, sale of discontinued models, trade-ins of competitive models, and leadership in sales in reference to quota. When a number of bases are used, the problem of relative weighting arises. The question of how important unit performance in each category is to the company must be considered. For instance, in the case previously noted, 25 unit stamps were given for the sale of a discontinued model and likewise for a competitive model traded-in. Management apparently considered these two of equal importance. In another instance, a certified demonstration of a credit system was awarded 100 points, whereas a sale of a system was awarded 900 points.

Types of Award. Awards may be monetary, of merchandise, or so-called honor or privilege awards. This latter type may be simply recognition of high-level performance by management with appropriate publicity through house organs or by other means. Or the award may be inclusion among a group given special recognition by way of a trip to the home office, with all expenses paid. Monetary awards are probably most common. There are usually many of them in any contest in order to provide continuing incentive throughout the sales contest for many salesmen. They must be significant in amount in order to arouse interest initially and to maintain effort. Often the mistake is made of being too niggardly in budgeting prize money. If an award is in monetary terms, it is doubtful if there will be much incentive unless a large proportion of the salesmen employed can see some opportunity for increasing their income by at least 10 per cent during the contest period. Leaders in the contest should do substantially better. If the objectives in mind are significant, this cost is not excessive.

Much has been written about the comparative virtue of monetary and merchandise prizes. Money as the common denominator is always acceptable as a prize. Moreover, no administrative problems are present, as with merchandise prizes. Yet prize money goes into the salesman's general stream of revenue and loses its identity quickly. There is no continuing evidence of achievement which can serve as a reminder of work well done and as the basis of self-approbation. For these reasons among others, many firms turn to merchandise prizes. They have continuing tangibility which is important to the salesman and to his family. The incentive to additional effort may be greater

because it is shared by husband and wife, even by other members of the family.

In one particular contest in which stamps were given in various denominations for performance on a number of bases, over 600 merchandise prizes were listed. The actual values given as prizes were probably greater than could have been given in monetary terms, for the prizes were secured directly from manufacturers or wholesalers. It must be recognized, however, that merchandise prizes require administrative effort which has its cost. In all probability, there is some saving which can be passed on to contest participants in the form of greater real values than could be given in monetary prizes. This assumes, of course, that the prizes available were actually desired and would have been purchased at retail if not secured through sales contests.

The incentive value of honor or privilege awards should not be discounted. The motivation provided by recognition of accomplishment by one's associates in any profession is a powerful one. Ownership of a plaque given as an award; membership in a 100 per cent (of quota) club, or name on honor rolls; privilege of going to a banquet or convention at headquarters to which only the most successful salesmen are invited; a testimonial from a top executive of the concern; and other such nonmonetary awards may mean a great deal to salesmen, just as to other professional men. The significance of the statement that men do not live by bread alone might well be pondered by those who devise sales contests. Management has often been surprised at the interest and enthusiasm which developed when nonmonetary awards were the only ones offered in a contest.

Administrative Effort Involved. If all salesmen are included in a contest based entirely on performance in relation to quota, there are few administrative problems involved. In contrast, the bases used for determining performance may be many, and complicated scoring methods may be devised to measure the level of performance. It may seem advisable to divide the sales force into a number of groups in order to provide equality of opportunity. A number of contests may thus be held simultaneously. If, in addition, merchandise prizes are awarded, these must be procured and dispensed. In that event, an additional administrative burden is assumed, of no mean proportions. While the nature of particular situations may be such that some complexity is unavoidable, it should be avoided in so far as possible, for it generates confusion and adds to cost.

Criteria for Judging Contests

Experience with sales contests suggests a number of criteria which may be used for testing purposes, either during the planning stage, or

after a contest is over. While the criteria which will be listed presently are based upon experience, nevertheless it is desirable for each company which uses contests to develop its own list independently, for conditions of product, market, and type of salesmen employed may differ markedly between companies. A thorough analysis of contest results will aid immeasurably in the development of such a list. In all likelihood, some of the results could not have been anticipated, for foresight is always limited. At least management can avoid making the same mistakes a second time, if the reasons therefor are disclosed through a careful analysis of the results attained, both favorable and unfavorable, soon after a contest is over.[3]

Among the criteria which have wide applicability are the following:

1. Is the contest basically equitable?
2. Does the contest provide a reasonable measure of equality of opportunity for all participants?
3. Will the contest result in teamwork and heightened morale, or in enmity and ill will toward the company?
4. Will the contest provide a continuing incentive to many members of a company's sales force over most of its duration, or, in contrast, will the contest narrow down quickly to participation by only a few salesmen?
5. Will the attitude of salesmen toward the contest be favorable or unfavorable?
6. Is there likely to be a slump in sales volume immediately after the termination of the contest?
7. Is the expense involved in alignment with the results which can reasonably be expected from the contest?
8. Are the bases of determining performance under the contest rules and regulations definite and easily understandable by salesmen?
9. Are the rewards for achievement in the contest sufficient to provide the necessary incentive for greater effort?
10. Will the contest induce action on the part of salesmen detrimental to future relations with customers?
11. Would some plan of continuing incentive compensation or more effective supervision meet the objectives of the contest more acceptably?

It will be recognized that these criteria are interrelated, particularly numbers 1 through 5. If a contest is basically equitable, it will provide a reasonable measure of equality of opportunity, heighten morale, and

[3] For case materials on sales contests, see the following: Al Citron, "1,336 Windows for Koret—A Salesmen's Contest Did It," *Sales Management*, January 1, 1950, p. 42; Larry Fitzmaurice, "Brown and Bigelow Shoot the Works on $100,000 Prize Contest," *Sales Management*, August 15, 1947, p. 42; "Employee Sweepstakes Opens 18,000 New Outlets for Arden Farms," *Sales Management*, July 1, 1948, p. 102; Harry R. Tosdal, *Problems in Sales Management* (p. 712, Templeton Company; p. 718, Darcy Office Machine Company [B]) (New York: McGraw-Hill Book Co., 1939).

provide continuing incentive to many salesmen. In that event, the attitude of salesmen toward the contest will be favorable and active participation likely. If the attitude of most salesmen is not favorable, a contest is doomed in advance. If a salesman feels that a contest is so devised that he has a reasonable chance to win something of value, that the cards are not stacked against him, he is likely to be interested and co-operative. But any enthusiasm will be difficult to engender, unless opportunity is actually present and the salesmen fully recognize that fact.

Whether all salesmen have some chance of winning prizes depends largely upon the bases selected for evaluating performance for contest purposes. Suppose, for instance, that the awards are based entirely on the value of the goods sold by each salesman during the contest period. If salesmen differ widely in experience and in previous performance, and if the territories which they cultivate differ widely in potentialities for sales, a contest based entirely upon sales volume has little to commend it. Only a few salesmen, perhaps the upper one-third in past performance, would have any chance of winning. A contest in which this happens defeats its own purpose. When sales volume is used as the sole basis for awards, it is advisable to divide the sales force into three or four groups on the basis of their past sales records and to have a contest within each group.

When there is a wide range in experience, ability, and past performance among the members of a sales force, there is more reason to use the type of contest in which each salesman is given the opportunity to gain awards by improving his own past performance. However, in such a contest, some measure of inequality of opportunity to secure awards may still be present. The salesman who was doing particularly well in the past would have less opportunity to improve performance than one who had been doing poorly. But inequality is less evident than in contests which feature direct competition among salesmen, for each man will be primarily concerned with his own performance, not with that of others.

There are still other ways to lessen inequality in opportunity. Management may arrange sales territories in such a way that they have approximately equal potentialities for sales. Somewhat the same position may be arrived at by basing awards upon performance in relation to quotas, if the quotas are based upon the potentialities for sales in the various territories and a forecast of business conditions, as well as upon past sales performance. In that event, each salesman is given a reasonable assignment in view of all the information available. If salesmen have confidence in the reasonableness of their quotas, a contest based upon performance in relation to quotas is likely to be successful.

In certain instances, contests have been ineffective in attaining desired objectives because a severe slump in sales follows the contest.

This slump apparently cancels the gains made during the contest period. If there is no net gain observable in sales volume, better relations with customers, or other desired objectives, then the expense involved was incurred unwisely. In one particular instance, a truck manufacturer had forecast sales quarterly for a year in advance. Early in this period a sales contest was held which apparently was successful as orders increased substantially. However, in the quarter after the termination of the contest, sales slumped badly for no apparent reason. At the end of the second quarter, the cumulative sales were about at the projected level, despite the fact that the probable effect of a contest had not been taken into consideration, when the projection was made.

Management thought that sales had been shifted from the second to the first quarter. As the contest awards were substantial, salesmen apparently became active in contacting prospects who were already favorable to the company's products. These prospects, in part at least, because of friendly relations with salesmen, placed orders a month or two in advance of the normal time. Or, perhaps, salesmen were induced to work at a level of activity which they could not maintain for long. The decision was reached that, despite a considerable capital commitment in administrative expense and awards, important objectives were not attained. Perhaps for such reasons, contests are used less in capital goods industries than in those which produce consumers' goods or supplies.

The other criteria listed need less by way of elaboration. The bases for determination of performance under the contest should be clear and understandable to the sales force. In so far as possible, the extent of performance should not be based upon subjective evaluation, but on quantitative measurement. Each salesman should either be able to calculate his own performance against some base, such as past records, or should frequently be apprised of his standing. Contests should *not* provide so much incentive that dealer relations suffer through overloading, too much pressure exerted by salesmen, emphasis on the wrong products, splitting of commissions, and other questionable selling practices. Finally, all expenses are alternative and there are many other ways in which the same objectives may possibly be accomplished. A conscious choice may favor incentive compensation, more supervision, or, perhaps, contests. It is important that a conscious choice be made for good reasons.

Criticism of Contests

Many of the reasons why contests are subject to criticism can be deduced from the foregoing comments. Perhaps they have been used by companies whose products or sales forces were not well adapted to

the contest procedure. Salesmen of high caliber and long experience in the producers' goods industries are not likely to favor contests, nor do the procedures of selling and purchasing lend themselves to short-run stimulation of effort. Often even under conditions where contests are feasible, they are not well devised and well administered. As a result, the expected objectives are not attained and negative results may appear.

Contests for Distributors' Salesmen

Attempts by the manufacturer to use sales contests as an incentive to motivate wholesalers' and retailers' salesmen are easily understandable. He is simply extending his influence down through the distribution channels which he uses in an effort to secure particular attention to his products and, perhaps, relatively less attention to the competing products of other manufacturers. Salesmen of distributors cannot be reached through other means of stimulation, such as incentive compensation or supervision. They may, however, be reached by contests and these are frequently used when the distributors' consent and co-operation can be secured. Often wholesalers who are approached with a contest in mind will not co-operate. They dislike attempts by manufacturers to control the sale of their products down through distributive agencies, the administrative responsibility which must be assumed, and the objections which may be voiced if they handle competing lines by other manufacturers. If they handle only one well-known line, for instance, of radios, refrigerators, or other high-value durables, and there is a very close connection between the manufacturer and the distributor, objections may be overcome and co-operation secured. Under such conditions, the objectives of a contest may well be realized.

There is a further objection to contests for distributors' salesmen—one which may be highly important. It is the fact that such contests may be subject to attack on the basis that they suppress competition. The Philco Corporation and Philco Distributors, Inc. carried on a contest for dealers' salesmen which was the subject of a complaint by the Federal Trade Commission.[4] In a "Sell 'N Win" campaign, salesmen in radio stores were offered special cash awards and prizes, depending upon the number of Philco sets which they sold to the consuming public. The Federal Trade Commission contended that the effect of this contest was to stifle competition in the manufacture and sale of radios. It was stated that the fact of a contest was concealed from the consumer, and that he looks upon the salesman as one who

[4] Federal Trade Commission, *In the Matter of Philco Corporation, a corporation, and Philco Distributors, Inc., a corporation, Docket No. 5514* (Washington, D.C.: Federal Trade Commission, 1947).

will give impartial advice. The effect of the contest, in the opinion of the Federal Trade Commission, would be to make salesmen reluctant to show customers other brands of radios and radio products; to induce salesmen to favor Philco in dealing with sales prospects; to withhold impartial advice; and, therefore, to suppress competition. It was contended, furthermore, that the "lucky number" drawings for the cash awards and automobiles was in the nature of a lottery and thus contrary to public policy. There can be little doubt that, in view of a contest of this character, salesmen would give some preference to Philco. This was the initial objective of the contest. Furthermore, dealers customarily handle a number of competing products. Competition simply on the basis of quality in reference to price would be suppressed as many potential purchasers do rely upon salesmen in the purchase of this type of product.

The question arises as to whether dealers should be satisfied with such a contest. If their objective is to serve their customers by providing the opportunity for choice among competing makes, this objective is obviated unless there is disinterest on the part of salesmen. Furthermore, a contest of this character might create enough incentive so that salesmen would disregard the stated preferences of potential buyers and attempt to get them to buy a brand which they actually did not wish. In view of these possibilities, contests directed at the salesmen of distributors who handle competing makes of a given product are probably unwise. It is doubtful whether the long-range interests, either of the manufacturer or the dealers, are served by such contests.

OTHER MEANS OF STIMULATION

Sales Quotas for Incentive Purposes

The subject of sales quotas will be considered at some length in Chapter XXVII on the measurement of sales performance. Some discussion of them is necessary here, nevertheless, for they are used for incentive purposes. A quota may be defined as a sales goal for a specified advance period, in dollars or in physical units, which is used in the management of sales efforts. It is a managerial device which may be used for many purposes, among them stimulation of the sales force. Strictly speaking, the term quota implies a breakdown of a total sum into parts. Therefore, when a sales quota is assigned to a sales division, district, or branch, or to an individual salesman's territory, it means that a certain part of the over-all selling task has been assigned to the person in charge of sales in those territorial units. It is a definition of his task relative to those of other people in the organization. In a sense, also, it is an invitation to a contest with others in order to determine who can do best, and likewise to a contest with

himself to see whether the goal set can be reached. This is particularly true if quotas are based, in part, on past performance and at a somewhat higher level than the previous year for purposes of incentive.

If a quota is reached or, perhaps, surpassed to a greater extent than by others in similar positions, the rewards for so doing may be ample. In some concerns, the making of the 100 per cent (of quota) club and, particularly, if it is done over a number of years, is the most important single factor considered in making decisions on promotions. Financial rewards for making or surpassing quota are given by many concerns in the form of additional commissions or a bonus. Nonmonetary compensation of a stimulatory character, such as gifts, trips to the home office, vacations, and publicity on accomplishment, may all be based on performance in relation to quota.

Incentive Compensation

Salesmen's compensation will be discussed at length in Chapter XXVIII. For purposes of completeness, however, it must likewise be briefly mentioned here that the greatest stimulatory weapon used by management is hope of increased monetary award. Such awards may be given for making quotas, as just indicated, or for performance on many other parts of the sales task. When any particular task especially needs to be done—for instance, promotional work on a new product, emphasis on high profit items, or the greater use of displays —some method involving a commission or a bonus can be devised for inducing better performance on the part of salesmen. The possibilities of variation in compensation methods to achieve particular objectives are manifold, as will be indicated later. Sales managers have been particularly fruitful in devising compensation schemes for incentive purposes.

Prospects of Promotion

Whether prospects for promotion will have a pronounced and continuing stimulatory effect upon salesmen depends basically upon the standing of the company for which they work and its possibilities of growth. It is a question of the excellence of a company's products, whether it is active in research and new product development, whether its organization is structurally sound, and whether its management is active and forward-looking. If the prospects for expansion and thus for new and better jobs are good, the incentive for better performance in anticipation of promotion will be there. If salesmen can see the process at work, it will provide stimulation. For instance, in a case previously mentioned, the transfer of one man to a home-

office position often occasions the transfer to a district managership, an assistant managership, a position as supervisor, or to better territories of ten or more people. This stepping-up process, as people are ready to take more responsibility, characterizes a dynamic organization.

The extent to which incentive is given depends likewise on a company's personnel policies and their administration. Surely the incentive is greater if it is the announced policy of a company to promote from within its organization. If there are no evidences of nepotism or indications of favoritism for other reasons, the likelihood of promotion on a merit basis will appear greater to salesmen, and, in all probability, will be. A policy to promote entirely on a merit basis presumes, of course, that relative merit will be determined carefully and, in so far as possible, objectively. Salesmen will have more confidence in the administration of policies on promotion, if fully adequate records are kept on the performance of all sales personnel and the nature of these records and how they are used are known.

REVIEW AND DISCUSSION QUESTIONS

1. Why is the question of maintaining morale in the sales force considered a particularly important one by management; likewise one which presents unusually difficult problems?
2. What are the ways in which morale can be strengthened and maintained at a high level, particularly among new salesmen who are not yet firmly established in the selling profession?
3. "Morale in reference to the performance of any assignment within an organization is largely the outgrowth of a group consciousness." "Some concerns apparently always have a high level of morale; others do not." Comment.
4. Compare national and regional sales conventions on any bases which you consider to be of significance.
5. Is the sales convention, in most instances, primarily an instrumentality for sales training, control and supervision, or stimulation?
6. Planning and staging a sales convention is much like writing and staging a play, since it requires the same careful attention to detail and to the effects which are likely to be created. Compare the two, noting both differences and likenesses.
7. What is the over-all objective of sales contests? The more detailed objectives? There may also be important "by-products," both favorable and unfavorable. What are they?
8. Why are "outsiders" prone to underestimate the incentive to greater effort provided by nonmonetary awards when available for particularly outstanding performance?
9. Attempt to rate, in order of importance, the criteria suggested for judging sales contests. If you wish, assume conditions such as type of product, type of salesmen, size of sales force, market coverage, etc.

10. Read one of the articles referred to in footnote 3, page 720; characterize the contest therein described; and judge it on the basis of the criteria previously mentioned.

11. Are sales contests consistent with the growing attitude of distrust toward high-pressure selling?

12. Sales contests may be directed at any level in the distributive process where selling takes place—for instance, at company salesmen, jobber's salesmen, or retailer's salesmen. There would probably be a consensus that contests are a more questionable device for use by the manufacturer if directed at noncompany salesmen. Why?

13. The commercial division of the McCaskey Register Company manufactures steel safes, cash registers, and credit systems. These products are sold through a commercial sales organization of approximately 300 salesmen. To facilitate sales control the country has been divided into eight divisions, each with a division manager. Within the divisions each salesman has an exclusive territory determined largely on a population basis. The territories are considered approximately equal in potential sales. Salesmen are paid a commission each week on the orders accepted by the company.

In the fall of 1949, when sales were beginning to lag, the sales manager developed a plan for a sales contest to stimulate the commercial salesmen to greater effort. The proposed contest was to run for two months, from October 2 to December 2. It was to take into account not only actual sales but the effort put forth. The contest included a nation-wide individual competition and an interdivision competition. Points were to be awarded to each salesman according to the following schedule: certified credit system demonstration, 100 points; certified cash system demonstration, 100 points; sale of Portographs and Portograph books, 100 points; sale of a credit system, 900 points; sale of a steel safe, 900 points; sale of speed cash register, 900 points; sale of safe register or vertical credit register system, 1,250 points; sale of model cash register system, 1,250 points.

Certified demonstrations were those officially reported on "certificates of demonstration," signed by the merchants or dealers who received a system demonstration. These certificates were to be accompanied by sales slips, letter or bill heads, or envelopes bearing the printed name and address of the potential buyer.

Each salesman was to accumulate points (1) toward his individual total, (2) toward his division's total and the averages by which the winning division was to be chosen. Fifteen individual awards were provided, ranging in value from a $1,000 first prize to eight prizes of $100 each. The prize-winning division was to be given a banquet at the location of the division's office. All members of the winning division who had accumulated 7,000 or more points would be invited, with expenses to and from the banquet city paid by the company. A silver cup would be presented to the division, and each member attending the banquet would receive a small gift from the president. For determining the winning division, it was proposed to average the points within each division every week by the number of men actively

employed in that division during the week. At the end of the two months, these weekly averages would be averaged to determine the winning division. Thus, it would make no difference whether there were few or many salesmen in a division.

Appraise this sales contest on the basis of any criteria you consider significant.

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Chapter XXV

SALESMEN'S ASSIGNMENTS: DETERMINATION OF SALES TERRITORIES

WHEN a large number of people work on a common project, they cannot be left to do as they please, or confusion would reign. They must be given assignments. In selling, these work assignments may be classified into four groups: territorial; distribution of effort; transportation and routing; and volume of sales or sales effort. The first of these is concerned with where the salesman will work; the second, with the apportionment of his time and effort among types of customers, sizes of customers, the various items in a company's line, and the various types of effort—selling, promotion, service, etc.; the third, with the order of movement around a territory; and the fourth, with the volume of sales or sales effort which the company hopes and expects over a given period. Sales territories will be considered in this chapter; distribution of time and effort, transportation, routing, and scheduling in the chapter which follows; and assignments in terms of volume of sales or quotas in Chapter XXVII, on evaluation of salesmen's performance.

Work assignments may be very general or very specific. In some cases—for instance, in the sale of new products or competitive lines such as insurance—no territories may be assigned. Salesmen may be given complete freedom to work where they desire. At times control goes no further than a geographical assignment, thereby leaving the selection of prospects, routing, transportation, and apportionment of effort to the salesmen's judgment. At the opposite extreme, the salesman may be given a list of dealers to call on over a definite route as in the sale of groceries, drug items, or tobacco. Most companies now go much further in the use of control measures than formerly. They have found that additional control of salesmen in the field has contributed substantially to profits.

NATURE OF A SALES TERRITORY

A person may think of a market as a group of buyers and sellers or as a place or area in which these buyers and sellers function. For the purpose of making assignments to salesmen under a system which em-

phasizes control, the concept that, to the seller, the market is a group of prospective buyers seems to the writer the more realistic and useful of the two concepts. Nevertheless, because of common usage, the term "sales territories" will be used, but with the recognition that it refers primarily to the salesman's assignment of prospective purchasers for solicitation or promotion rather than to the geographical area in which he works.

OBJECTIVES OF TERRITORIAL ASSIGNMENTS

Assignment of sales territories is such a usual practice in American industry that a discussion of objectives might seem unnecessary. It is not a question of defending the practice so much as one of calling the reader's attention to favorable results which may follow if sales territories are well planned. In addition to the broad objective of securing a greater measure of control over sales operations, there are objectives of a more specific nature, some of which merit comment.

1. The most important objective to be attained is a thorough coverage of the market. Salesmen cannot be expected to integrate their efforts in such a manner that all prospective customers of sufficient potentiality for purchases to merit sales calls are solicited regularly. Rather, this integration of effort is a function of management. Salesmen usually are too busy in day-to-day activities to do much by way of careful planning for market coverage. In one particular instance, a company's branch office stated that all potential customers were being cultivated. A thorough investigation was made, and it was discovered that those regularly contacted constituted only about 25 per cent of the total number. Adequate coverage also means that different types and sizes of customers receive the amount of attention which their potential purchases merit. Investigation usually has revealed the fact that salesmen customarily spend too much time and effort on small accounts and too little on volume purchasers.

2. Sales territories can be so established that each salesman is given a reasonable over-all task to perform. The physical size and the potentiality of the territory must be taken into consideration, as well as the proven capabilities of the salesman. A study of territories may reveal that a company has too few salesmen or, perhaps, too many. Particularly under a commission form of compensation, each territory must be fertile enough to provide the salesman, if he works diligently and effectively, with a reasonable level of income. Often, with changes in business conditions, sales territories have to be contracted or expanded in size as the work load changes and as the opportunity for sales decreases or increases.

3. Definite responsibility is placed on salesmen through territorial assignments. This may of itself be productive because of its effect on

morale. The salesman's task is defined more clearly than it otherwise would be, and particularly so if a quota assignment is likewise made. The placement of responsibility often begets a responsible attitude toward a job. This is particularly true if a salesman's territory seems reasonable to him, both in size and in the opportunity for sales volume.

4. Definite sales territories provide management with one of the means for judging salesmen's performance. Data secured through studies of potential demand can be compared with data on actual performance in securing sales volume, territory by territory, trends can be determined, and salesmen's relative performance can thus be judged. Attempts have been made at times to construct sales territories so that they are equal in opportunity for sales. If this can be done successfully, it is less difficult to arrive at judgments as to relative level of performance. There is a further advantage that salesmen are not as likely to desire a shift from one territory to another. Nevertheless, when sales territories are determined with equalization of opportunity in mind, other factors of greater significance are often neglected. More will be said on this subject later.

5. Sales expense may be reduced by avoiding duplication of effort and by getting a more reasoned coverage of the territory assigned. Effective routing may minimize useless travel, backtracking, and other movements which have an unfavorable effect on the sales-expense ratio.

6. Planning and assignment of sales territories and effective routing may facilitate both the budgeting of sales expense and distribution cost accounting. Expense cannot be predetermined unless there is some advance knowledge of what salesmen will do in the field. Costs can be more easily determined; moreover, there is more confidence in the data once secured, if operations have been standardized in so far as possible.

7. Finally, and, perhaps, most importantly, definite territorial assignments and better routing are likely to lead to improved relations with customers; more regular calls, and thus a stronger competitive position; more attention to service where needed; less opportunity for competitors to break in, and, therefore, less turnover among customers. It is recognized that such turnover is costly, for long-continued business relationships are usually low-cost relationships.

DETERMINATION OF SALES TERRITORIES

Nature of the Problem

The problem, simply stated, is to break down the field work of selling into manageable units. Manageable means that, in view of the over-all plans of a company for cultivation of the market, the work

expected of a salesman is well adapted to his capabilities. Both the nature of the work and the amount considered necessary will influence the determination of territories. The next question which faces management is how to distribute sales man power over the market in such a way that the best results will be achieved.

As a basic concept, man power should be spread over the market in relation to potential demand. Studies of the manner in which potential demand can be estimated were considered in earlier chapters.[1] While these studies indicate the basic pattern for the distribution of sales effort, the pattern must be modified for any particular company. For instance, the basic pattern would be similar, if not identical, for manufacturers of office equipment, for those of machine tools, or consumer durables; but this fact does not mean that all companies in each of these industries would have identical sales territories, even though they all began operations at the same time. In all probability, they would differ markedly, although the point of departure was the same. This suggests that there are no ready-made sales territories for any concern. The problem is to secure an index of potentiality as a general guide for the distribution of effort, and then to permit other factors—some of general significance to all competing concerns, some pertinent to the operations only of a particular concern—to have their bearing on the actual selection and later revision of sales territories.

In working with the problem of sales territories, companies proceed from varying positions. When a new company enters the market, sales are likely to be made initially in the immediate vicinity of the production unit. Later, the concern may branch out. Then a few sales representatives will be placed strategically in relation to potential demand and competition. Some study of the market becomes necessary, but as yet there is no question of adjusting one salesman's territory to those of other salesmen. Later on, if expansion takes place and markets are cultivated intensively, all the problems of sales territory determination appear, and more effective planning becomes necessary.

For most concerns, however, work on the determination of territories is that of revision. For some reason or other, perhaps an accumulation of evidence that existing territories are not of the right size or structurally sound, revision is suggested and steps in that direction are taken. Many sales territories have grown like "Topsy" and despite changes in product, transportation, potentiality of markets, or many other factors which will shortly be considered in more detail, changes in territories and territorial assignments have not been made. With increase in demand, territories may become too large for one salesman to cultivate successfully; with decrease in demand, because of depression or competitive factors, territories may become too small

[1] See Chapters VIII and IX.

to support a salesman. Adjustments are always needed and, therefore, determination of sales territories is a continuing problem for management.

Establishment of Basic Territories

The first procedural step is to secure information on the distribution of sales over the market by states, counties, metropolitan centers, or trade areas, if possible, for the particular product in which a company is interested. Usually it is not possible to secure such information by specific products, but often by classes of product. For instance, estimates of retail sales, by counties, of food products, drugs, general merchandise, furniture and household durables are made each year by *Sales Management*.[2] Actual sales data for certain products and product classes are secured for the decennial census. Some data on sales are collected and published in the interim period by the Department of Commerce. Certain trade associations, particularly those in the office equipment and household durables fields, collect data on sales by trading areas and make the data available to all members. The automotive industry is unique in this respect, for the distribution of sales is furnished through the requirement of registration. With knowledge of actual past sales by territorial units, an index can be prepared showing the proportion of total sales made in each. An index thus constricted is a first approximation of the need for distribution of sales manpower over the national market by a particular concern. This conclusion rests on the assumption that where sales have been made in the immediate past they will be made in like proportion in the immediate future. For products of nondurable character and within reasonable limits for others, this is a tenable assumption.

An alternative step, and in part a supplementary one, may be taken through the development of an index of market potential. For instance, *Sales Management* prepares each year for sales and advertising controls an index of potential demand in the United States by counties. This is what is called a generalized index because it is not prepared with the sales of a particular product in view. It is calculated by means of combining data on effective buying income, estimates of retail sales of the previous year, and estimates of population. For instance, the potential for Michigan in 1949 was estimated in this study at 4.6238 per cent of the United States total demand. The estimate for Wayne County was 2.0016 per cent, approximately 40 per cent of the entire state.[3] If a company's products are in the consumers' goods classification, particularly those which are immediately consumable, this type of index may be most useful to management as an indication of the location of potential demand.

[2] *Sales Management*, May 10, 1950, pp. 156 ff.
[3] *Ibid.*, p. 332.

Many concerns, particularly those which manufacture producers' goods and some consumers' durables, have little confidence in a generalized index as an indicator of the likely distribution of sales for their particular products. In that event, other data are developed. If the procedure is to determine the relative demand in various parts of the market by correlation studies in which the affecting factors are combined for purposes of prediction, again the information secured is the percentage of total sales which should be made in each state, county, or trading area. This is simply another way of securing the same type of data as that presented by *Sales Management*, but for a particular product or class of products. In order to use this method, data on past sales, either of an individual concern or an industry, must be available for use as the dependent variable. No estimate of absolute demand is secured by this procedure, only data on percentages of relative demand based on the relative presence of certain factors which are known to condition sales. For instance, according to a study of this character, Wayne County in Michigan might be expected to take 2 per cent of the total sales of a certain product, Michigan 4.5 per cent. These data can then be applied to an estimate of total industry sales or, perhaps, of company sales. If, on the basis of past sales of an industry and an analysis of business conditions, the estimate of total sales for the next year is 100,000 units or, in value, $50,000,000, Wayne County could be expected to take 2 per cent of these totals—that is, 2,000 units or, in value, $1,000,000.

The next step is to determine, on the basis of past experience and the strength of competition, the percentages of the potential sales which the company can expect to get in each territorial unit. These percentages applied to potential sales by the industry furnish estimates of potential sales by the company. For instance, if it is estimated that a company should get 30 per cent of the total industry sales in Wayne County, the amount would be 300 units, or, in value, $300,000 in sales. Then the basic sales territories could be determined by combining enough contiguous cities, counties, trade areas, or, perhaps, states, to give a total sales potential in each instance of sufficient size to support a sales representative. If the potential demand was sufficiently dense, one city or county might be a sales territory of the required size or, in contrast, the market might be so thin that three or four states would have to be included in a single territory.

The percentage for each territorial unit, secured from either a correlation study or a generalized index, might be applied directly to an estimate of a company's sales for an advance period. Often it is much less difficult to estimate a company's sales than sales for an entire industry. If the percentage for Wayne County was applied to the estimate of company sales and the resultant figure showed that the company should get $100,000 of business from Wayne County, whereas

only $50,000 was being secured, the reasons therefor might well be investigated. Perhaps the territory in which Wayne County was included was too large, and important customers were thus being neglected. The explanation might be that competition was particularly strong and the company was doing as well as could be expected, in view of this fact. At least this sort of data not only aids in the initial determination of sales territories, but also in their later revision.

An entirely different method for determining sales potentials may be used. Instead of breaking down an estimate of total sales by the use of an index of potentiality, individual estimates of potential demand in physical or dollar units are secured from salesmen, branch managers, or other people in the field. These estimates are then combined to secure a total estimate of potential sales in an advance period for an industry, for a particular company, or both. These estimates are usually made individually by types of product. Estimates of this character made year after year, even though lacking great accuracy, are useful, and particularly so if there are no records of actual sales by all producers broken down by product lines. Estimates of industry sales and a company's actual sales can be compared in order to estimate the proportion of total sales which a company has secured in various products in different parts of the market. With some knowledge of total sales, trends in total sales, a company's proportion of the total, and trends in that proportion, some basis is provided for setting up and adjusting sales territories. While these data may not be available for manufacturers of new, specialized products, they are most useful for revision of sales territories once established and for those concerns which are considering expansion into new market areas.

Factors That Modify Basic Territories

While data on past sales and sales potentials do furnish a starting point for the determination of sales territories and their later adjustment, there are many other factors which must be considered. Management may feel that each territory should have a potential of roughly a certain volume of sales, let us say, $200,000, and that territories should be determined with this figure in mind. Basic territories can first be set up from studies of potential demand to achieve this preliminary objective, and then modifications can be made as suggested by other pertinent factors, some of which will now be discussed briefly.

Variation in Product. Basic territories may have been set up on the basis of past sales in a product classification rather than of a specific product, or on the basis of potentials for a product type, rather than for the specific product of a particular manufacturer. In most product lines, there is some variation among the individual items

produced by different manufacturers and, therefore, some difference in the likely pattern of sales over the market. While this point should not be emphasized too greatly, still there are cases in which product differences within classes are sufficiently great substantially to modify sales territories after preliminary determinations have been made.

Extent of Market Development. There is a growth element in sales territories, not toward larger territories but toward more of them. When a new product is first placed on the market, salesmen are likely to be given larger territories than are later desirable if the product takes hold and people become interested in it. As time goes forward, it becomes evident to management that salesmen are hitting only the high spots of demand, that they have more territory than they can possibly handle effectively. Then it is a question of giving them additional aid by way of junior salesmen, of splitting territories in two, or of carving out sectors from a number of territories in order to make one or more new ones.

While a good case can be made for intensive cultivation of limited sectors of the national market initially, it should be recognized that the individuals or concerns which will get the most economic benefit from a new product, and thus are most vulnerable to attack by sales representatives, may be widely scattered over the market. In a smaller area, there will be a limited number of such individuals or concerns. Thus sales will have to be made to less interested buyers or more sold to those who first purchased, in which case the marginal significance of each additional unit is reduced. For these reasons, larger territories than will be desirable when a product has achieved wide acceptance may be entirely reasonable at earlier stages in the market development process. Moreover, if small territories are assigned earlier, they may not pay their way for some time. Salesmen may not be able to make sales in sufficiently large volume to achieve a sales-expense ratio which a company can stand. While larger territories will mean greater expense for travel, still the possibilities of sale may be so much greater that a more favorable sales-expense ratio will result. For this reason among others, it is likely that large territories will gradually be reduced in size as greater acceptance of products is achieved.

Channel of Distribution. The size of a salesman's territory depends in large measure on the number of customer contacts he must make and how closely together customers are located. Companies selling directly to many small customers, such as retailers, service establishments, and small industries, of necessity must have territories of restricted size. In contrast, a company may sell through wholesalers or supply houses. Relatively few contacts will be necessary, and sales territories may therefore be substantially larger. Thus it is largely a question of the number, location, and size of potential purchasers.

Nature of the Work Assigned. Sales territories must be determined in accord with the nature of the work assigned. For instance, sales and service work may both be comprehended within a single assignment, or a service force as well as a sales force may be put in the field. As an example, service work on office equipment is usually handled through a separate service force. Then there must be service territories as well as sales territories, and, perhaps, of substantially different proportions. At times, much of the promotional task is handled by people especially trained for such work. When salesmen are entirely relieved of service responsibilities, or when promotion is handled by specialized personnel, sales territories can be much larger than they otherwise would be.

Competition. This factor was first considered when the determination was made as to what proportion of potential sales a company could expect to make in each territorial unit. The concept of normal sales effort was here involved. In contrast, however, management may decide to meet competition vigorously in particular areas by requiring more than normal work with prospective customers. In order to do so, territories must be reduced in size in those areas in which other companies, perhaps by virtue of location, appear to have a competitive advantage. In time, this advantage may be overcome by intensive effort. In contrast, a decision may be made to look for additional volume where competition is less active and well entrenched. The advantage given by a differential in transportation cost may be such that withdrawal from a market, or at least no strenuous effort to make sales, appears wise. Such a decision calls for a larger territory in order to give the salesmen sufficient opportunity for sales volume. Each territory must be considered individually, for the strength of competition, as well as the possibilities of meeting it successfully, will vary considerably in different parts of the market.

Caliber of Salesmen. The concept that each territory should contain a certain volume of potential sales does not take into account the fact that salesmen differ markedly in ability and energy. In fact, territories must at times be altered just because they are to be handled by one salesman rather than another. Some men, because of lesser age, good health, and good work habits, can handle a larger territory than other men. To some men, a large and fertile territory presents a challenge, while to another, it may be more in the nature of a threat. A lesser, over-all sales task may seem more manageable to some people and, just because of that fact, their performance may be improved.

Changes in Business Conditions. When business conditions deteriorate, there is likely to be a demand on the part of salesmen for larger territories, *especially if they are paid on a commission plan of compensation.* The level of business activity exerts a strong influence on the demand for some products—in particular, those whose pur-

chase can be deferred. When business revives, there is a backlog of demand which must be satisfied, and territories previously enlarged are beyond one salesman's capacity. Therefore, sales territories are accordionlike in that they expand and contract with basic changes in business conditions.

Possibilities of Specialization. If sales are made to different types of communities, different types of buyers, different purchasing power levels, or different nationality or ethnic groups, and they are, to some extent, isolated, it is only reasonable to let these factors affect sales territories. For instance, in and around every large city, there are ethnic groups clearly distinguishable because they retain some of their common traits and customs. They have formed communities which persist partly because of a common background and likeness of interests, partly because of the attempts by other groups to force segregation. Territories are often so planned that there is some uniformity in composition in reference to these groups. For instance, a Midwestern concern which manufacturers a variety of food products has some which are particularly favored by people with a Central European background. One of the company's sales territories comprises all of the communities in and around a large city in which people of Polish nationality and ancestry predominate. In selecting a salesman for this territory, one with a Polish ancestry was chosen who could speak the language. Not only does he have a knowledge of the product needs and desires of Polish people, but he also has no difficulty in communicating with retailers, some of whom still have difficulty in using English. Some measure of product specialization is achieved and the difficulty of the selling task is considerably lessened.

Much the same type of advantage is secured if, in territory determination, an attempt is made to achieve some measure of specialization in sales to dealers who serve consumers with different levels of purchasing power. Some territories may comprise mostly industrial customers, others dealers, still others institutions. While types of buyers may, to a large extent, be interspersed, still there is some measure of isolation. Then specialization can be achieved by the formation of sales territories along the lines suggested without greatly increasing expenses.

Transportation Facilities. It is obvious that the relative ease of getting to the locations of prospective customers must condition the size of sales territories. Mobility has, of course, been immensely increased both by the use of motor vehicles and airline transportation. The inevitable waiting periods necessitated by railway travel are largely a thing of the past, for railroads and airlines are used only when salesmen must cover long distances quickly. Now, because of better transportation, sales territories may be considerably larger than in the past and, even with larger territories, customers can be better served. It should be recognized, however, that other factors—

particularly the greater density of demand for certain products—have been working toward smaller territories in physical area. Surely it can be argued that sales territories, *in terms of customers served*, have been increased by improved transportation.

Topographical and Climatic Factors. Topographical and climatic features as reasons for altering sales territories are of less importance now than formerly. They have been important for two reasons: first, because of their effect on transportation; and, second, because of their effect on demand. Now the first is of lesser importance because of the marked improvement in transportation facilities. There are good roads usually, even over mountains and through deserts. The second factor is by far the most important, and its effects persist. In mountainous areas or in those with little rainfall, there is a dearth of demand for most products. It is primarily this fact, rather than any difficulty of transportation, which conditions the size and composition of sales territories.

Boundaries of Sales Territories

Unless there is fear of overlapping of effort, and thus confusion as to who should take responsibility for selling work, boundaries are of no importance. When a market is first being developed and a small number of salesmen are placed at strategic locations, there is little likelihood that they will get in each other's way. Market development has not reached a point where a clear-cut breakdown of the market for solicitation of customers is needed. If the market is composed of only a few customers and they are known, a sales territory as an area concept has little significance. Certain potential customers are assigned to each salesman; and boundaries, therefore, in the usual sense of the word, are not a factor in the situation. Exact boundaries assume additional importance when salesmen are paid on a commission plan of compensation. Whether one specific account is in one salesman's territory rather than in the territory of another may directly affect earnings, therefore exactitude in delimitation is needed.

Until recent years, sales territories were bounded almost entirely by political lines. Even today, except in those instances in which the whole national market is cultivated very intensively or research has identified all potential customers, they are likely to be used. Sales territories are likely to be one or more states, a city, or a group of counties. While it has long been recognized that political boundaries were arbitrarily set and have no economic significance whatsoever, still they have been used to bound sales territories and continue to be used. The reasons are that they are recognized boundaries and that it might be difficult to devise others which are easily locatable and which would be accepted without question by salesmen.

A further reason, and a very important one, is the fact that market

information in the form of statistical data, both from government and private sources, is assembled on the basis of political boundaries. As these data must often be used to secure information on the relative potentiality of territories, political lines must be used to bound sales territories. Still, management is getting away from entire dependence on political boundaries by discovery, and evaluation for purchases, of particular customers, and by the development and use of trading areas.

State Boundaries. While state boundaries are still used for sales territories, their inadequacy is recognized and the trend is toward groupings of counties. If a company has very few salesmen and the demand for its products is widely scattered, the simplest thing to do may be to assign groupings of states. Territories may consist of some complete states and parts of others. When national distribution is first attempted and neither the sources of demand nor the probably extent of demand are known, state boundaries may be used. Under such conditions, there may be no better basis for delimitation of territories.

County Boundaries. County boundaries are used more extensively than any other boundaries for delimiting sales territories. Most important data from government sources are broken down to the county basis but not beyond that point. The county is usually a smaller unit than the sales territory. Therefore, they can be grouped to bound a territory of reasonable size and potentiality. While county lines are not satisfactory boundaries for sales territories in many instances, still for manufacturers of raw materials, equipment, and industrial supplies, they are usually adequate. Even when trading areas are outlined, county lines are often found reasonably adequate for the purposes of delimitation.

City Boundaries. At times, the boundaries of a city are used for sales territories, but they are not satisfactory, for they may exclude adjacent areas which can reasonably be covered by a sales representative and are, in fact, a part of the metropolitan area of which the city proper is the greatest part. Through the inclusion of minor civil divisions, a more realistic territory can be bounded. Both governmental agencies and private organizations have recognized the weakness of city boundaries for marketing purposes. The political boundaries of our cities are products of historical circumstances and rarely conform with the economic and social entities of which they are usually the central part.[4]

[4] This fact was recognized in the 1940 Census and metropolitan districts were outlined. A district was defined for each city of 50,000 or more inhabitants. In addition to each central city, the adjacent and contiguous minor civil divisions or unincorporated places, which had a population density of 150 or more per square mile, were included. Some tabulations will be published from the 1950 Census on the basis of these 1940 metropolitan districts. However, tabulations will be made on two new

Intracity Boundaries. Some of the large cities need to be subdivided into a number of sales territories effectively to handle selling work. This is particularly true for many convenience goods, for which there is a large and continuous demand, such as food, drugs, tobacco, and household supplies. The smallest political subdivision would be too large for delimiting such sales territories. To meet the need for comparative data for small areas within the city or metropolitan district, the Bureau of the Census has encouraged the establishment of "census tracts" in the larger cities. "Census tracts" are small areas, designed to include equal numbers of inhabitants or equal areas. In laying out the tracts, an attempt is also made to delineate areas with fairly homogeneous populations. Through the use of these census tracts, where available, for laying out sales territories, not only may territories of the right size quantitatively be secured, but also homogeneity may be achieved, and thus the benefits of specialization. It is a question of putting together enough census tracts, preferably contiguous to each other, to constitute a reasonable work load for a salesman. Contiguity and homogeneity may, of course, be in conflict. Then it is a question of balancing the decreased expenses resulting from close proximity of all parts of a territory against the increased effectiveness brought about by specialization.

Trading Area Boundaries. For the past two decades the trading area unit has been used to an increasing extent as the basis for territorial boundaries. (See Figure 26.) A trading area has been defined as the district bounded by the selling range of a trading center. In relation to shopping lines, for instance, the question may be asked as to what market coverage can be expected from each market center. The answer to this question is very important to the manufacturer. If he knows the extent of coverage from each center, he can act so as to secure a thorough coverage of the total market. When statistics on sales and on market indices are assembled on the basis of trading areas, the relative potential of each can be estimated, and the need for distribution of manpower over the market can be determined.

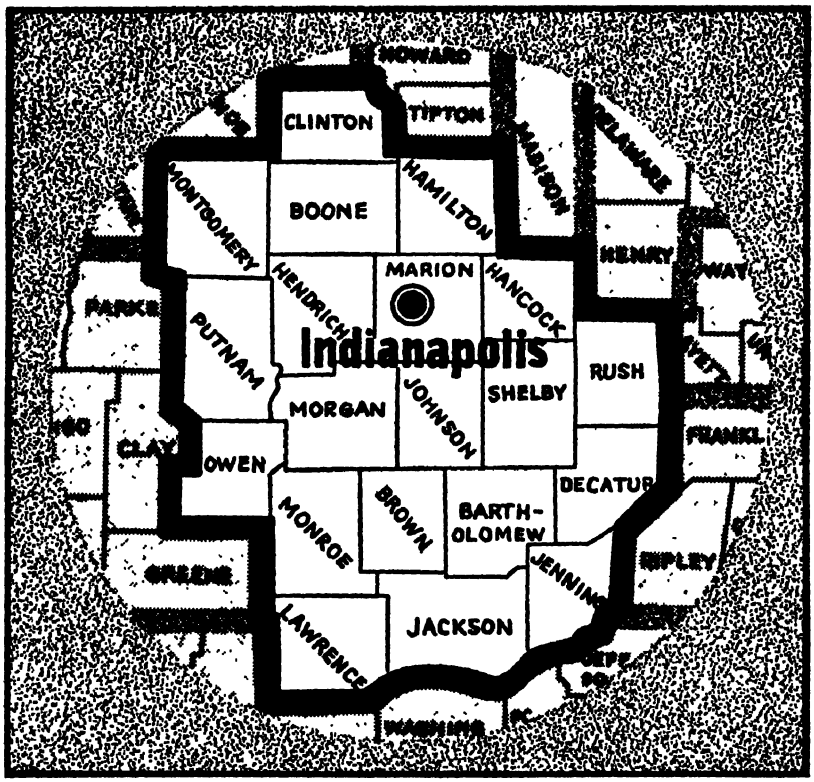
Trading areas differ markedly for different classes of product, and for different types of market. This is to be expected, for they are an expression of the marketing task for each product class, likewise the nature of the demand for different products. Trading areas have been

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area units, the *urbanized area* and the *standard metropolitan area.* An attempt will be made to include in the urbanized area all persons living under distinctly urban conditions. The urbanized area thus constitutes a refinement of the metropolitan district of the 1940 census. The standard metropolitan area, in contrast, will include the entire county in which the central metropolitan city is located and also the contiguous counties which have close economic and social integration with the city. See U.S. Department of Commerce, Bureau of the Census, *Urbanized Areas, New Statistical Areas for the 1950 Census* (Washington, D.C.: U.S. Government Printing Office, November 15, 1949).

FIGURE 26

Indianapolis Market Area for Shopping Lines*



* The Curtis Publishing Company, *Selling the National Market* (Philadelphia, 1949), Chart 11, p. 27.

developed, both by government agencies and private entities, for all broad classes of product and types of market. Some of the earliest and most widely consulted studies were those of the Department of Commerce on the wholesaling of groceries and dry goods. The *Atlas of Wholesale Grocery Trading Areas*, published in 1938, outlined 184 major areas, the *Atlas of Wholesale Dry Goods Trading Areas*, published in 1941, outlined 46 major areas. Hearst Magazines, Inc., in its publication, *The Trading Area System of Sales Control*, shows 626 consumer trading areas based upon 33 factors in five broad classification units. In 1948, Hearst published a *Directory of Consumer Trading Areas of the United States* and a map entitled *The Trading Area System of Sales Control for Consumer Durable Goods Industries*. A total of 613 trading areas were outlined which, it was stated, account for about 70 per cent of the total annual volume of business in this class of products. These trading areas are used by the National Electrical Manufacturers Association, the Gas Appliance Manufacturers

Association, the Institute of Cooking & Heating Appliance Manufacturers, and the American Washer & Ironer Manufacturers Association as the territorial basis for reporting sales periodically by their members. Data on sales are then assembled and made available to members for each trading area.[5]

The use of trading area studies for delimiting sales territories has many advantages for concerns whose products are not highly specialized as to type. Trading areas are realistic, for they are based upon the actual past movements of trade and conditions which affect trade. They are economic units rather than political units, although political boundaries may be used in their construction. The facts of trade movement, disclosed by trading area studies, direct attention to causal factors which may be subject to some measure of control. At least, facts are revealed which furnish a good starting point, either for initial determination of sales territories or their later revision.

Not always will it be desirable for a particular concern to accept the exact boundaries suggested by a trading area study, but the presumption is in their favor unless the concern's products differ markedly from the classification for which the trading areas were made. Trading areas show where buyers have purchased in the past, and, if the similarity in the marketing pattern needed is great—as for companies selling jobbing lines such as foods, drugs, tobacco, and hardware—trading area boundaries may well be used for sales territories.

Location of Individual Buyers. For purposes of completeness, it should again be noted that territories may be delimited by the location of individual buyers. The tasks assigned to particular salesmen may be highly specialized by account type. For instance, one salesman may be assigned to one or more large department stores or railroad companies, and these become his sales territory wherever they are located. This follows from the concept that a market is so many potential buyers, rather than so much geographical area.

REVISION OF SALES TERRITORIES

Reasons for Revision

Many of the conditions which prompt attention to revision of sales territories have been suggested in the preceding discussion. Obviously,

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[5] Mention should also be made of two recent studies. One of these is "Market Areas for Shopping Lines, 1947," published in that year by The Curtis Publishing Company. The national market in this study is broken down into 498 market areas. The other, Rand McNally & Company study of retail trading areas published in map form in 1946, shows 366 Basic Trading Areas and 60 Major Trading Areas, the boundaries of which were determined, it was stated, "after an intensive study of such factors as physiography, population, economic activities, highway facilities, railroad service, suburban transportation, newspaper circulation, Department of Commerce studies and field reports of experienced sales analysts."

any of the factors which affect sales territories may change sufficiently to necessitate revision of the territories. The query of executives as to why action was taken draws forth many reasons, most of which refer either to expense or to lack of acceptable performance on the part of salesmen. The reply may be (1) that there had been an excessive rise in selling costs, (2) that the sales-expense ratio was too high, (3) that a study had indicated that many unprofitable accounts were being solicited, or (4) that executives believed that selling costs could be reduced by a review and revision of the whole pattern of solicitation in the field.

In contrast, emphasis may be placed on the lack of performance—for instance, (1) incomplete coverage of the market, (2) evidence that certain salesmen were overburdened, while other complained of too small territories, (3) that the market was being "skimmed" in certain territories, (4) that sales were being made only to the easiest accounts and that many good accounts were being neglected, (5) that salesmen were not using their time wisely and that, with better control through rearrangement of territories and routing, larger territories could be assigned, or (6) that an accumulation of evidence indicated that territories were not well adjusted in size or composition to salesmen's capabilities. Any one or more of these reasons might be advanced for either territorial changes or reassignments. Much can be said for periodic review because otherwise necessary adjustments may be overlooked, with an adverse effect on operations.

Problems of Management

While conditions of the types mentioned may suggest the need for revision of sales territories, the causal factors at work may be in quite different areas. For instance, the sales-expense ratio may edge upward, not because of unreasonable sales territories, but because of any one of a number of factors, including a deteriorating competitive position brought on by a lack of product improvement. The first problem then is to determine whether ineffective territorial layouts are, in fact, a contributing factor to the unfavorable condition. In some cases, the evidence may clearly indicate that the fault lies with territories or how they are cultivated. If good prospects are being neglected or faulty routing is revealed by an analysis of expense reports, a correction of either condition is likely to lead to sales territory revisions. Any action which considerably eases or augments the work load of a salesman is likely to affect his territorial assignment.

The problem is also complicated by the fact that it is very difficult to make a few changes only. If the work load is generally too heavy, an additional territory may be created by taking some accounts, towns, or perhaps counties, from each of a number of territories and

combining them into one. This will mean that sales quotas will have to be changed in conformance with territorial changes. If sales expenses are budgeted by sales territories, these will also be subject to revision. It is likely that changes in routing will also be needed. It thus becomes apparent that changes in territories lead to many other changes in a chain reaction of a cumulative character. Unless there is good evidence of a need for territorial adjustments, such action should not be taken, for it is disruptive in its effect and costly in time and effort.

Effect on Salesmen

When sales territories are reduced in size, a personnel problem of importance is likely to arise, for salesmen expect a lesser opportunity for sales and lower incomes. This is particularly true if salesmen are paid on a commission basis. Seldom will salesmen who are so compensated admit that their territories are too large for effective cultivation. Even if they are too large, a salesman paid on commissions can probably make a higher salary by skimming the market in a large territory than by a thorough coverage of a smaller territory. Moreover, territorial reductions may mean that salesmen lose some of their oldest, best-liked, and most productive customers. If friendships with buyers are involved, it may be difficult to shift the accounts to other salesmen without irritation or even a loss of patronage.

A situation such as this calls for the best type of personnel practice. The company's interests and those of the salesmen appear to be in conflict. While there may be no real conflict from the long range point of view, there is an immediate conflict, and justification of decisions made by management is thus in order. Salesmen should be informed of what conditions led to territorial adjustments. In so far as possible, factual information on sales potentials, sales volume, and inadequacy of present coverage should be presented to show that the changes are necessary. If a salesman can be shown that the revised territory assigned to him contains sufficient sales potential to permit of high earnings, the changes may be accepted without too much objection. Of course, these adjustments are much easier if compensation is largely by straight salary. Then the fear of reduction in earnings is not present. Management may see fit to guarantee the previous level of earnings for a short period in advance in order to preserve morale.

Procedure for Revision of Territories

In order to illustrate the procedural pattern of territorial revision, two examples will be given—one which involved a complete read-

justment of all territories by a manufacturer of a household equipment item of medium value, and one which involved a shifting of territories only at the periphery of the old territories by a manufacturer of containers. The steps which were taken in the first case will be considered in some detail:

1. A list of all desirable present and potential accounts was developed. Sales were made directly to department, furniture, hardware, and specialty stores in all cities and towns of any consequence throughout the United States. Salesmen's call records were used as a starting point. Supplementary information was secured from Fairchild Publications, Amos Parrish & Company, Dun & Bradstreet, Inc. and numerous other sources. On the basis of information from all of these sources, a list of buyers was drawn up and checked carefully for omissions and necessary deletions by the company's salesmen.

2. The accounts listed were graded for potentiality in purchases of the type of product manufactured by the company. The accounts were graded on the basis of four factors, (*a*) the present volume of business with the company; (*b*) the considered opinions of the company's salesmen; (*c*) various indications of the relative size of the listed outlets—for instance, the data available from Dun & Bradstreet, Inc. on capital and credit, and sales volume ratings from another source; (*d*) independent appraisals of the relative potentiality of the various accounts by the personnel of a consulting concern. After information was secured from these sources, the data were placed on work sheets and, after a thorough analysis, the buyers were graded on the basis of their potentiality for purchases.

3. Data on potentiality were translated into call frequencies. With the estimates of potentiality at hand, an attempt was made to develop some standards as to the number of calls which would be needed for various account sizes. These were in terms of call frequencies. After a preliminary determination had been made, the data on present and potential customers in the territory to which he was then assigned was sent to each of the company's salesmen with instructions to suggest revisions on the basis of his firsthand knowledge of the various accounts and the area in which they were located. When these reports were returned by salesmen, each account was regraded for call frequency on the basis of the new information obtained and particularly on estimates of purchases from competing concerns. Final determinations were made as to how many calls on each customer should be made over an annual period.

4. The number of calls which each salesman could be expected to make per day was determined. Some indication was given by each salesman's past performance, as shown by his call reports. Data on the average of calls was computed, and variations from the average for particular salesmen were noted. In certain instances, variations

seemed reasonable in view of the nature of the territory in which a man was working. In other instances, there was some indication of too slow or too hasty calls or insufficient time used and effort exerted by the man. Evidences of ineffective effort were, however, much more common than too little effort. While a rough standard for calls was established, the sales force was sufficiently small so that each man's capacity for calls could be estimated.

5. Sales territories were altered on the bases of the number of calls which a salesman could make and the number of calls needed. Since the call frequency of each desirable account had been determined, the size of each territory depended upon the number of calls which each salesman could make. Therefore, territories were expanded or contracted to fit salesmen's capacities. Because the number of calls which could reasonably be expected was a function of the type of territory in which he worked, as well as of his own demonstrated capabilities, transportation facilities, geographical features, and other factors previously mentioned were taken into consideration in determining the size of territories.

6. Decisions were made as to whether territories could best be covered by motor vehicles or by trains. Compact territories with large potentiality were covered with automobiles. The New England states were cases in point. Both in some southern states and in the mountain states where there were greater distances between towns considered worthy of cultivation, railway, automobile, or air transportation was used, depending upon the specific circumstances involved.

7. Decisions were made as to where within their territories salesmen should live, in order to operate most effectively and at least cost. In order to arrive at sound conclusions, preliminary studies were first made on questions of routing. Then an attempt was made to locate salesmen somewhere near the center of their territories. Long periods away from home were thus avoided in so far as possible, and the costs of emergency calls were reduced. In some instances, where a large city dominated a territory, it was chosen for the place of residence, even though it was off at one side of the territory, because of the frequent calls necessary on large accounts there present.

As a matter of personnel policy, salesmen were permitted to have a voice in the choice of the city in which they would be located. It was the opinion of the management that a location which a salesman preferred for personal reasons might be a wise choice if, by its selection, the good will of the salesman was secured.

8. Definite routes were laid out for salesmen to follow in each territory. This problem was complicated by the fact that call frequencies for different accounts varied substantially, in this instance from one to nine per year. As a mechanical aid, pins representing dealers, different colors denoting the frequency of calls needed, were

placed on maps of each territory. The general method of determining routes was to lay out a series of circles, where possible, on all sides of the headquarters city. Each circle represented a trip to be taken. Main circles were laid out with a thread of one color; alternate routes or side trips, planned to cover some dealers with lesser call frequencies, were shown in different colored thread.

In some instances, it was necessary to make special trips to cities in which only one or two accounts had very high call frequencies. At times, adjustments were made in call frequencies because the accounts were at hardship points from the point of view of expense. In view of the cost involved, it was not considered advisable to make calls as frequently as indicated by their potentiality. A great deal of time and effort was spent in this effort to lay out routes so that a minimum of expense would be involved in getting to each account as often as indicated by its call frequency, as well as to have the calls reasonably well spaced. The routes, as first laid out, were considered experimental, and many changes were later suggested and made on the basis of experience.

9. Various methods of control were devised to assure successful operation of the plan—among them, a Periodic Route Sheet, a Record of Calls on Dealers, and Customers' Individual Record sheets—to give the home office a check on salesmen's activities in the field and to furnish the salesmen a guide for covering their territories and a means for keeping pertinent information on each of their customers.

In the whole planning effort, salesmen participated as well as company executives and consultants. This was considered desirable for two reasons: they had much to contribute; and, furthermore, the likelihood that the plan, once developed, would be accepted without objections by them was enhanced. That they might object unless given some part in the planning effort was considered likely, for their activities in the field under the new plan were circumscribed to a much greater extent than formerly. At one point, in particular, there might be considerable doubt—in reference to the translation of customer potentialities into call frequencies. In general, attention to customers should vary with their likelihood of purchases, but, in particular cases, other factors might enter in—for instance, amount usually ordered, inventories customarily carried, and how often a salesman was welcomed. Although a call sheet might indicate that a certain customer should be called upon, the salesman might know that a call at that particular time would be wholly unproductive. In other words, there is not an invariable relationship between potentiality of accounts and number of calls needed. Thus some leeway for independent decisions on the part of salesmen in the field is desirable. Any plan, such as this, should be used as a guide to action in the field, not as a strait jacket. Important deviations from suggested calls or routing might, nevertheless, be subject to later justification,

In another instance, a company's management had become convinced that some saving in expense might be forthcoming if some towns or customers, located at the peripheries of the territories, were reallocated. In some situations which had come to light, the cost of serving a particular account in a certain location would have been substantially less if it had been handled by salesman A who handled territory X, rather than by salesman B in territory Y. As a result, all territories were re-examined in order to determine whether their boundaries could be made somewhat more logical and costs thereby reduced. There was no thought in mind of starting anew on the problem of territory determination or assignment, or of a major revision. Nevertheless, as a result of the study, slight changes were made, in many of the company's territories.

The procedure followed was to analyze thoroughly the movements in the field of all salesmen. Fully adequate call records were available as a basis for investigation. Routing had been left largely to each salesman, however, so the patterns of movement around each territory were not known with any exactitude before this study was made. When it was determined what routes each salesman followed and how frequently, this information was placed on maps of each territory. The route taken was shown by a line the width of which was used to indicate the number of times it was followed. Thus the width served as an indication also of the density of demand along that line. If a narrow line extended way out toward another territory and the line at its tip was nearer another headquarters location than the one from whence it came, it was considered presumptive evidence that the town at the tip and the customers in it should be shifted to the other territory. Or, if the location in question was closer to a wide line from another territory than to one from its own headquarters, it was subjected to further investigation. The question in each instance was one of differential cost.

The procedure followed revealed anomalous situations, each of which was then subjected to special investigation. In certain instances, such investigation was not onerous. The reason why a certain town or customer was in territory A, although its inclusion in territory B seemed more reasonable, was soon discovered and its validity recognized. In certain cases, the reason, although once valid, was no longer so and the town was shifted to another territory. Changes in transportation, the development of certain areas, or other such factors, had influenced the situation. Enough desirable changes were found to make the investigation distinctly worth while.

Final Comments

It should now be recognized that the determination of sales territories is an evolutionary process. It is one of constant adaptation of

territories to a host of changing conditions. This does not mean that no territories are ever stable over a period of time, but that somewhere in the territorial pattern conditions are always developing which, if recognized, will lead to a change. Evidence may also accumulate that territories, as initially established, were in error. Perhaps they are now too large to get a thorough coverage, perhaps there is overlapping because of indistinct boundaries or lack of knowledge of boundaries on the part of salesmen, perhaps there is not sufficient homogeneity in the customers included, perhaps the territorial lines are not observed by salesmen, perhaps the very common error of attempting to cover too much territory is being made. Any one of these conditions may call for remedial action.

There is little possibility that sales executives, even though they have the aid of a competent research staff, can lay out territories which will be completely satisfactory. There are so many affecting factors, some of them human, which condition the size and inclusion of territories that the process of allocation is largely one of trial and error. None of the published material available from government and private sources, although most helpful, tells the whole story about the demand characteristics of any area. Salesmen who have worked in the field know things about certain territories that statistics do not reveal. Moreover, statistical evidence is always somewhat behind the facts of the moment. Nevertheless, through the use of the published information available supplemented by the knowledge of salesmen and home-office people, territories can be established which will be satisfactory, both to the sales force and to management. Then it becomes a continuing problem to keep them up to date, for conditions, both of the market and of man power available, change as time goes on.

REVIEW AND DISCUSSION QUESTIONS

1. Salesmen's assignments in the field may be very detailed, thereby severely restricting their independence in action, or very general. For what types of goods and markets are the extremes likely to be approximated? What are the types of control exercised over salesmen?
2. What are the various concepts attached to the word "market"? To "sales territory"?
3. From the point of view of the individual salesman, why is the territory to which he is assigned of outstanding importance? Comment on the assertion that each salesman should be given an "adequate" territory.
4. Characterize the nature of the problem involved in the determination of sales territories.
5. At times manufacturers have attempted to delimit sales territories in such a manner that the sales potential in each was approximaely equal,

thereby facilitating the evaluation of salesmen's performance. Is this a desirable criterion for the establishment of sales territories? If this criterion is used, what others are necessarily disregarded?

6. Why must sales territories be constantly subject to review and possible revision?
7. Why is it difficult to dispense entirely with political boundaries for use in the delimitation of sales territories? What political boundaries are most commonly used for this purpose?
8. Define a "census tract." A "trading area." How have they been useful to business concerns in the breakdown of the market into sales territories?
9. Review one or more of the trading-area studies mentioned on pages 742–43, or others which may be available, and report on the manner in which they were delimited; likewise upon the suggestions made for their use.
10. Would you agree with the assertion that the determination of salesmen's territories is in large part a problem of personnel administration?
11. Review the step-by-step procedure followed in the territorial revision outlined on pages 746–48.
    a) At what points would you question the procedure? Why? What suggestions can you make for improvement?
    b) What factors would determine the number of calls which a salesman could make?
    c) What dangers are involved in using such a definite plan of market coverage?
    d) How frequently would a study of this character have to be remade in order to keep the company's sales territories well adjusted to conditions in the market?
    e) Does the procedure followed in the study have general applicability?
    f) On what bases would you commend or criticize this study?

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Chapter XXVI

SALESMEN'S ASSIGNMENTS: DISTRIBUTION OF TIME AND EFFORT

THE CASE STUDY previously outlined touched on many aspects of the broad subject of salesmen's work assignments. It is an integrated subject and, therefore, questions of territorial assignments led inevitably to others of a related character, such as distribution of time and effort, transportation, and routing. Assignments of territory may imply that the salesman is responsible for the solicitation of all potential customers within the established boundaries. In contrast, his assignment may be limited to specific types or sizes of customers or only to specific ones designated by name. Assignments may also relate to type of work to be performed in the field or to types of product. Questions such as these will now be considered.

BASIC ASSIGNMENTS

Types of Work Assignment

The broadest classification of marketing activities in the field includes selling, promotion, service, and public relations. In actual practice, they may be isolated in assignments, or they may be combined in many ways. In direct sales of nontechnical products to dealers, salesmen engage in all of these activities. Selling and promotion are emphasized, while service and public relations are of lesser importance. In the sale of foods and drugs through wholesalers, promotional work directed at dealers—or, in the case of proprietary drugs, at doctors and dentists—may be handled by specialists, such as missionary salesmen and detail men. Often service is separated from sales because they differ markedly in character and thus in the type of men and the training required for them. Attention to public relations is required of all men in the field, but even this function might be isolated and assigned as the sole responsibility of a field representative. Decisions of this character, concerning the degree of specialization desirable in the field work of marketing, must be made first, and they affect all later types of assignment.

Types of Product Assignment

Whenever there is diversification in the line of products manufactured or handled, the question of specialization on a product basis sooner or later arises. Simply stated, it is whether all salesmen should handle all of the company's products or only certain products. It is usually a difficult question to answer with any assurance, for it involves questions of salesmen's capabilities, the location of demand for the various products, purchasing habits, and many others. It is a very important question, for it is concerned with the effectiveness of the salesman in the field. Perhaps the assignment to sell all of the company's products in view of their differences, their complexity, and the characteristics of their potential buyers does not constitute a reasonable work load.

How the Problem Arises. If a company at the outset manufactures a number of products, the question of specialization in selling may arise immediately. However, it is more usual for a company to begin manufacturing one or a few closely associated products. Then there is no question of specialization, for the salesmen can handle all products effectively. Later products may be added to the company's line; mergers may take place which bring together two lines of greater or lesser similarity; products may be changed in such a way that service work is needed to a greater extent; and new classes of buyers may appear. The sheer number of products in a company's line, either a manufacturer's or a distributor's, may suggest that a salesman cannot know them all sufficiently well to sell them effectively. There may be evidence from the field of "natural" specialization; that is, that certain salesmen are neglecting the sale of some products while emphasizing the sale of others. This may mean that some potential buyers are being neglected because they are not particularly interested in the "favored" lines. If a company has made limited assignments on a product basis—for instance, created two or more special sales forces for its different lines —then evidence of unduly high sales costs may suggest less specialization. There can be little doubt that a greater degree of specialization by product type would lead to greater effectiveness in selling, but other factors, notably increased selling costs, may offset this advantage.

Factors Affecting Product Assignments. These factors may be considered under three general headings of product, market, and sales task. If products in a line are basically dissimilar in that they are used for entirely different purposes and are not associated in use, there is much more reason for specialization on a product basis. If the products are highly complex in nature and the task of knowing them and and their applications thoroughly is a difficult one, there must be more specialization in selling. Highly technical products of high value are

a case in point. For instance, specialized selling of certain products is common in the electrical industries. Special order equipment is likely to be sold by salesmen who concentrate their efforts on particular products. New products are sometimes sold by a special sales force initially and then incorporated into the general line. If products in a line are widely dissimilar in quality, the desirability of having them all handled by the same salesmen may be doubted. As noted earlier, the number of products may also have a bearing on the decision made. Usually, however, it is not the question of number but degree of similarity in the products handled and the complexity of each which condition decisions on product assignments to salesmen.

The type of buyers and their distribution over the market profoundly affect decisions on product assignments. The reason is that the location of buyers, their type, and their developed purchasing habits are the factors which influence selling costs. Suppose, for instance, that the potential buyers for a certain product in a company's line are other manufacturers who are concentrated in a few counties, that there are relatively few of them, and being large, they purchase in large volume. Even though the salesman has only one product of a line to sell, the cost of selling may not be high because buyers are concentrated. He will not need to sell many items in order to secure an order of reasonable size because buyers are large. In contrast, suppose that the demand for this particular product came from many small buyers widely dispersed over the national market. Costs of selling the one product only might then be prohibitive. These small customers might well be in the market for other items in the line. By combination in sale, not only may an order of reasonable size be secured in relation to the costs of solicitation, but also the time of the buyer will be conserved. Moreover, one product may help to sell another through the carry-over of good will.

If a company's products are sold to different classes of buyers, there is added reason for specialization. For instance, a company may use different channels of distribution for the same product; direct sale to retail dealers, manufacturers, and institutions and an indirect channel through wholesalers or manufacturer's agents in areas of less concentrated demand. More likely, however, a company will have different channels of distribution for various parts of its line. Then the question arises, for instance, as to whether a salesman should call on industries as well as retail dealers or dealers as well as wholesalers. In the first instance, while the products are identical, the buyers differ in type; in the second instance, both the products and the buyers differ in type. As wholesalers are larger than retail dealers and more difficult to sell, as prices and discounts to them are different, as the degree of competence needed in salesmen may differ, a company may decide to divide its sales force between wholesale and retail accounts. If cer-

tain parts of a company's line are sold only to manufacturers, other parts only to wholesalers, these salesmen are likely to be assigned to one or the other but not to both. The reason is that through specialization by type of account, specialization on a product basis is likewise achieved.

It is not wise to combine products in sale if the essential nature of the selling task for them differs too greatly. If some products require a large amount of service work, and others do not; if some products are sold only after many calls and long negotiations, and others are sold routinely—for instance, as supplies; if some are sold to high-level executives, while others are not; if some are sold on the basis of appeals to rational buying motives, while others are not—then separation in selling is advisable.[1] Different abilities, levels of ability, and training are needed on the part of salesmen. At times, it is an unwise use of certain salesmen's time and ability to assign them to products in the company's line which do not require their unusual talents and training. Thus, as a third but interrelated approach, management should think of what must necessarily be done in the sale of different products before decisions are made on combination or specialized selling by sales representatives.

Conclusions. An analysis of this subject, salesmen's assignments by product types, leads to certain conclusions which, if thoughtfully considered, may further understanding. It should be recognized that generalizations are not laws in the sense of an invariable relationship between phenomena. Rather, they imply that, in a great majority of instances, a certain relationship has been present and that this relationship therefore has significance. For instance, it is more feasible to have salesmen specialize by types of buyer, if such action also brings about specialization by territory and by types of product. A condition such as this may be present if most buyers of a certain type are concentrated territorially and purchase only certain items in a company's line.

It may likewise be argued that the desirability of specialization by product types depends largely on the differential costs involved, which in turn depend largely upon the extent of the territory necessarily covered in order to tap existing demand. If the demand is widely dispersed over the market, the cost of having different salesmen sell only certain items in a company's line will be great, and combination of products in sale thus becomes more attractive. In this connection, it should be noted that specialization by products is directly opposed to the usual reason for combining products in sale—that is, to offer customers a more widely diversified line, thereby increasing the likelihood of a larger order and a lower per-unit sales

[1] The question arises whether products should be combined in manufacturing, if they cannot effectively be combined in sales. This is a question of the proper constitution of a line of products, which was considered in Chapter II.

cost. As a further conclusion, "natural" specialization, if it is persistent despite supervisory efforts to secure attention to all parts of a line, should be recognized through more limited product assignments to salesmen. The basic question is whether a more limited product assignment should be given, or whether the difficulty can in some manner be corrected.

The question of product assignments is conditioned largely by the nature of the territory in which sales are to be made. A decision has been reached in many instances to follow a dual policy, depending largely upon the density of demand. In certain areas of low density, salesmen may be assigned *all* products in a company's line. The costs of specialization would be too great in view of the nature of the territory covered. In other areas of denser demand, specialization by product or product type is practiced to a greater extent. In such areas, the costs of specialization are not so great and the advantages of more effective selling then outweigh the disadvantage of greater cost. Often it is desirable to test a plan of greater specialization in certain well-chosen areas in order to see what effect it does have on sales costs.

After mergers, such testing is particularly necessary. Mergers have often been made without adequate analysis of their probable effect on marketing activities and costs. It is assumed that marketing costs will be reduced because more products are included in the new company's line, and therefore salesmen will have more products to sell. In many instances, the result has been quite different because the merged lines were too dissimilar to permit of combination selling.

Assignments by Type and Size of Customer

Analyses of sales records have usually shown that companies have secured a large proportion of their total business from a small proportion of their customers. In one particular instance, 12 per cent of the customers solicited took 88 per cent of the tonnage of products sold. Allowing for customers solicited but not sold, 31 per cent of the customers sold took 88 per cent of the tonnage. Situations of this general character are not at all unusual. Perhaps they are simply indicative of the relative position of large and small buyers in certain fields. Nevertheless, facts of this character for any particular company are arresting and, particularly so, if there is evidence that small customers are getting a highly disproportionate amount of attention from salesmen. A situation such as this calls for a better distribution of time and effort over accounts of different potentiality. Perhaps the proportion of total sales from a relatively few large accounts should be even higher than at present. Perhaps a movement in this direction would reduce the sales-expense ratio. At least, cost of distribution studies have almost invariably indicated that many small accounts were un-

profitable, and that some of them held no possibilities of becoming anything else.

It is important for a company to know whether its salesmen are giving a disproportionate share of their time to small customers or poor prospects. Salesmen often do so for a variety of reasons, among them the attitude of large buyers on previous calls, the buyer's sales resistance, the greater difficulty of getting to key people in the purchasing departments of larger concerns, and a feeling of inability to cope with these people successfully in sales interviews. If a salesman is left uninstructed as to the types of account on which sales calls are to be made, the contacts actually made are in part a reflection of the character and competence of the salesman. If a salesman's level of competence in dealing with large buyers is low, obviously he should not be placed in a territory where there are many important accounts. Nor should a competent salesman be placed in a territory where there are only small accounts, for then his competence will not be used. Still something can be done by directing salesmen on how to use their time and effort by account types and sizes.

As indicated in the case study previously outlined, it is necessary to secure information first on the relative potentiality for purchases of all present and prospective customers. This assumes that their probable purchases over an advance period can be estimated without too great a margin of error. In some instances this can be done without great difficulty while in others it is very difficult indeed and very costly. After the relative potentiality of the demand units has been determined, these data must be translated into call frequencies. In doing so, consideration must be given to the competitive position in each area and to the costs of getting to accounts with high call frequencies.

Even without a thorough study of the market, something can be done to guide salesmen in customer selection. As the larger buyers become known, the attention which they receive from the company's salesmen can be watched, and, if they are being neglected, salesmen can be instructed to call more often. The use of these procedures will do much to assure that the right amount of time and effort will be given to accounts of different potentiality, and that neither large accounts nor small accounts will be neglected. Only through constant attention can this problem be handled effectively.

TIME AND JOB ANALYSES

Beyond the questions of basic assignments and customer selection are those of duties to be performed on the job and the effective utilization of time. Studies of this general character are much more common now than formerly, but management has been slow in recognizing their usefulness. This is an anomalous situation in view of the wide

acceptance of time and motion studies in the manufacturing field. Such studies have shown how various operations could be performed most effectively, in the least time, and with the least amount of effort. As a result, both methods of work and conditions of work have been improved, work standards have been developed, compensation has often been geared to unit output, and workers' productivity has been greatly increased.

The highly favorable results of these research procedures in manufacturing strongly suggested that they might be applied with equally beneficial results to selling activities, but they have not been used extensively despite the fact that the timing of salesmen's activities is a comparatively easy task. Perhaps the reason is that selling activities are much more varied and less subject to standardization than those of manufacturing, and the cost of making time and job studies is much greater. Furthermore, many sales executives apparently have doubted whether selling activities and time utilization in the performance of sales tasks could be studied effectively and whether the information thus secured could be used to establish performance standards and, through them, to control salesmen in the field. Nevertheless, to aid salesmen to improve their performance, the over-all sales task must be broken down into its component parts and each part studied individually.

It is almost a truism that management must know what costs are before they can be reduced. It is equally true that management must know what salesmen's duties and activities are before they can be appraised and how much time is used for each before suggestions for saving time can be made. Analyses of duties performed and activities engaged in, of the time taken on each, of difficulties encountered in selling and of salesmen's attitudes toward their jobs are, in fact, simply a formalized attempt to secure the information which management must have in greater or lesser measure if salesmen are to be selected, trained, and supervised successfully. There can be little doubt of the usefulness of the information secured by such studies. Whether they are justified in view of their cost, and, perhaps, whether they are really necessary for the control and supervision of salesmen of high caliber would be doubted to a much greater extent.

Problems Involved in Time and Job Analyses. While no attempt will be made to go into these problems thoroughly, their nature should be understood, also their relative difficulty should be appreciated. First among them is the problem of determining who should accumulate the data. At times, companies ask their salesmen to check their own activities and to make a report on the time used for each. While significant data may thus be secured, it cannot be expected that salesmen will do this type of work with a high degree of proficiency, nor can they in view of the fact that they are actually doing

the work which is under observation. A rough breakdown of time used for travel, waiting, and with the customer can nevertheless be secured from salesmen. If supervisors spend time periodically with salesmen in the field, they may be able to secure the data for these analyses. They are likely to be able people, and they are cast in the role of observers initially. It is their job to observe what the salesman is doing, whether he is working effectively, whether he is neglecting certain duties, whether he is using his time to the best advantage, and so on. Time and job analyses are simply a procedure for getting this information in more definite form. Periodic evaluation of salesmen by supervisors gives some of the information but not in quantitative form. While the field work of these analyses is very close to that performed by supervisors, there is still the question as to whether a greater degree of specialization would be helpful. Certain techniques have been evolved for making these studies with which supervisors would have to become familiar if the work was to be done effectively. In all probability, the work would be done better if someone was put on the job who had worked with these studies previously and therefore had special competence, and who did nothing else over a necessary period of time. There would be less interference with the usual work of supervisors, and the work might be done more effectively although, perhaps, at somewhat greater cost.

Another problem usually encountered is the familiar one of sampling. It would be too costly in time and effort to analyze the work of all salesmen, nor would it be necessary. A small sample, under such conditions, is not representative, even when chosen with great care. Perhaps a broad classification can be made between city and country salesmen, and a representative sample chosen of each. Management may be chiefly interested in how the most successful salesmen operate, in which case a sample of these may be chosen, but again territorial differences must be recognized. A sample may be selected from among each of three groups; salesmen with excellent, medium, and poor records of performance. Comparisons between them as to procedures followed and time utilization may be most revealing. As in all such instances, the data from different samples tell the investigator different things. The danger involved is in giving universality to the information secured from a nonrepresentative sample or one which does not have the characteristic of reliability. Enough has been said to indicate that this question of the choice of salesmen whose work is to be analyzed is a difficult one and, therefore, one which should not be taken lightly by management.

In planning any analytical work, the question of coverage of the investigation arises. In this particular instance, it is necessary to determine what types of activity to check on and which ones to time. Obviously it is possible to go to absurd lengths in an activity breakdown

and thus jeopardize the whole study. Data on the total time spent on company business, the time spent in traveling, meals, waiting, interviewing, nonselling—such as stock-taking, arrangement of displays, and other promotional work—is significant. Also the time spent to no good purpose should be checked. On the interview side, a further breakdown on what the salesman does to discover the buyer's needs, the appeals used to induce purchase, the dealer's rejoinders and how they are handled, the use of demonstrations and samples, the use of promotional appeals, the character and arrangement of effort on different products, and at what stages in the interview the salesman takes the initiative may be checked. These are largely qualitative factors in the interview, and, perhaps, timing other than on the basis of the time given to different products would not be feasible. It should be recognized that what the salesman does in the field is subject to infinite variation, also that some of the most effective people are least orthodox in their selling habits. In view of complicating factors, it is wise to make a few preliminary trips with salesmen before final decisions are made on what to observe, how to classify the material, and what activities are to be timed.

Another problem is to eliminate the bias, in so far as possible, created by the fact that the work of the salesman is under observation. The question involved can be stated simply as follows: Will the salesman behave normally when he knows that whatever he does may be recorded in some manner and thus becomes a matter of record? The answer must be in the negative, but it is a question of more or less, and the difference between normal practice and practice under observation may be sufficiently small to be insignificant. The force of habit is very helpful in this connection. The salesman may try to act differently, but only to a certain extent will it be possible for him to do so. Then, also, the fact that his activities are being timed may be kept from the salesman. While this would seem to be very difficult indeed, emphasis could be placed on questions of procedure and note-taking would be expected.

In one of the best time analyses which has been made, it was claimed that salesmen were unaware of the fact that their activities were being timed. Apparently it has usually been possible to get the full co-operation of salesmen and thereby to lessen the bias which would proceed from antagonism and distrust. If the ground has been well prepared by assuring the salesman that the results will be favorable rather than prejudicial to his interests, if his co-operation has been secured, and if the investigator is a friendly person who plays the game well, bias may be held within reasonable limits.

Uses of Information Secured. The uses of job analyses for purposes of selection and training have been considered at some length in previous chapters. Suffice it to say here that these are the principal

uses and alone merit the preparation of such analyses, whether they are primarily concerned with duties, time distribution, difficulties, or attitudes. They are likewise useful for supervision and control and for salesmen's assignments. From them standards as to number of calls which should be made, promotional materials which should be used, the number of products which should be handled, the amount of time which should be spent on customers of various sizes and types—all under particular conditions of territorial assignment—can be established. Few standards in selling practice have much validity for *all* salesmen if they work under markedly different conditions. This fact should be recognized, for otherwise standards will not be established in which salesmen have confidence and the whole effort will be discredited. For instance, if the standard for calls is fifteen per day and a salesman works in a territory in which there is no possibility of reaching that figure, the standard is an irritant rather than an indication of reasonable performance.

In a recent study of the activities of wholesale drug salesmen, a comparison was made between the time spent in various activities during the sales call by the ten most efficient and the ten least efficient country salesmen.[2] The proportions of their time taken by each group for nonessential activities were as follows: awaiting interview, 7.5 per cent and 20.5 per cent; broken interview, 10.0 per cent and 15.3 per cent; general conversation, 8.5 per cent and 11.7 per cent; idle time, 0.4 per cent and 1.8 per cent. The first group spent 73.6 per cent of call time in essential activities; the second group only 50.7 per cent. These data indicate the possibility of a substantial improvement in performance on the part of the less efficient salesmen.

In reference to time standards, the author sums up as follows:

> While there is no reason to believe that the most efficient salesmen present the optimum time standards that can be achieved eventually, they are practical standards which are being achieved by about one-fourth of the country salesmen and one-third of the city salesmen observed. The achievement of these standards by all wholesale drug salesmen would materially increase the efficiency of the distribution of wholesale drugs. Furthermore, if some of the time saved were used in sales-promotion, advice and assistance, which the druggists have indicated decisively that they want, the efficiency of the retailer could be likewise increased.[3]

In regard to assignments, these analyses have often disclosed a lack of proper attention to certain parts of the over-all sales task, and, consequently, in order to get the attention desired, assignments have been

[2] These data were taken from James H. Davis, *Increasing Wholesale Drug Salesmen's Effectiveness* (Columbus, Bureau of Business Research, College of Commerce and Administration, Ohio State University, 1948), p. 74. This study is one of the most noteworthy published on time and duty analysis in the selling field. It covers the activities of both city and country salesmen in the wholesale drug trade. Tables 41, 42, 45–49, and 51 are of particular interest.

[3] *Ibid.*, p. 79.

changed. An illustration from the petroleum industry is pertinent in this regard. A time study indicated that about 40 per cent of the salesmen's time was spent in bulk plant supervision, of which 36 per cent was spent on clerical work. Two hours and 26 minutes was spent in traveling and 2 hours and 25 minutes with customers in an average 8-hour day.[4] In reference to this 2 hours and 25 minutes, the author concludes as follows:

Time Spent with Dealers. Taking a look at this 2 hours and 25 minutes that he spends with his customers, we found out just what he was doing in that time. He spent 33 minutes on product selling, 21 minutes in general conversation, 16 minutes on station equipment, but only 6 minutes in "dealer development." To Esso, dealer development means the company's over-all effort to assist our dealers to become better merchants, by better product-selling, improved station appearance, better service and all the other activities that can be classed as merchandising. The total amount of time spent by the salesman developing dealer interest in each of these several merchandising activities, in 60 days amounted to 6 hours and 55 minutes.

In other words, our general salesman, along with 153 other major and minor responsibilities, finds about 7 hours available every 60 days to work with Esso dealers and their employees on the specific things that we know affect the relationship between them and the motoring public, and therefore the goodwill of our company and the acceptance of our products by the motoring public.

At this point, we could stop and accept the situation or wring our hands. We think we know what the public wants at a service station. We have determined that our dealers are doing just an average job of giving the public what it wants, and we realize that our salesmen have plenty to occupy their time. If their duties of managing plant activities, getting contracts signed, calling on new accounts and driving the nice automobiles we furnish them from place to place will only permit them to spend 7 hours out of every 60 days discussing modern merchandising practices with the established Esso dealer, what can we do about it?

To date we haven't explored fully all the things we can do about it and we can't report as yet on the effectiveness of what has already been done, but as a result of these studies, management has taken the following steps:

1. In certain divisions outstanding general salesmen have been relieved of their multitudinous responsibilities and have been given special assignments to work with Esso dealers to assist them in improving their salesmanship at the service station and their customer acceptance. The results of this experiment will be closely watched and will determine future policy.
2. The on-the-job experience of these salesmen will be incorporated in training programs offered to dealers and in the agenda of future dealer meetings.
3. Studies have been started to discover whether we cannot relieve all general salesmen of a substantial part of the paper work and plant

[4] F. R. Ficken, Jr., *Sharpening Sales Effort through Market Research* (Marketing Series No. 75) (New York: American Management Association, 1949), pp. 10–14.

responsibilities which have always been an important part of their job. All forms and records are being reviewed to determine which ones can be consolidated or eliminated entirely.

4. Studies will be made to see if more efficient routing cannot cut down the large amount of time spent by salesmen in traveling.
5. A new training program for general salesmen on all phases of their job is being prepared and is tentatively scheduled for use in the field by midyear."[5]

Although it was not mentioned in this particular instance, time studies may cast doubt on the size and composition of sales territories. If there is evidence that salesmen are actually overburdened, it is probably desirable to reduce their assignments territorywise, or to give them some help, perhaps through junior salesmen. The difficulty may be that they have not properly apportioned their time among the various duties assigned. Then it is a question of instructions or additional training, followed by supervision. Evidently, in this instance, salesmen's duties were manifold and the best solution was to reduce the work load, rather than to decrease the size of territories.

Time studies are one of the first steps in distribution cost accounting. If costs are investigated by accounts, types of account, products or territories, it may be discovered that certain accounts or types of account, because the average size of the order from them is small or because they are disadvantageously located, are unprofitable. If accounts in a territory are largely of this type, the whole territory may be unprofitable. Through cost studies the distribution of salesmen's time and effort over accounts may be subjected to revision, and with excellent results.

Finally, time and job studies furnish considerable ammunition for those people who are in direct contact with salesmen in a supervisory capacity. While the data may not have been assembled from a particular salesman's territory, it does represent a good picture of what salesmen, in general, are doing in the field. Management, through a perusal of the data collected, may come to some reasoned conclusions as to what salesmen should be doing in the field and as to what changes in activities are needed. Then, through occasional discussions with salesmen, particularly with those who are having difficulties, verbal assignments can be given, based upon time and job studies, which may improve performance.

TRANSPORTATION, ROUTING, AND SCHEDULING

While many things may be done to bring about more effective time utilization by salesmen, one which often yields substantial

[5] *Ibid.*, pp. 13–14.

results is improved transportation and routing. Sales managers are often surprised to find that traveling takes such a large proportion of the salesman's time. While the range in the proportion is great, it is likely to be between 25 per cent and 30 per cent for city salesmen and somewhat more for country salesmen, but not appreciably more, for lesser traffic congestion largely compensates for longer distances. In four particular instances, the proportions were 23 per cent, 25 per cent, 30.4 per cent, and 32.8 per cent. In two instances in which travel and waiting time were combined, the proportions were 39 per cent and 43 per cent. The proportion has been considerably lessened since the advent of the automobile and its use by salesmen. The use of airline transportation for longer trips has had a favorable effect on transportation time, and its influence will be even greater in the future when smaller cities are linked up more fully in airline networks. If time spent in traveling can be reduced as much as 10 to 15 per cent, such reduction is equivalent to placing one additional man in the field for every 20 to 40 employed.

Routing Problems and Policies

More usually than otherwise, management leaves routing entirely to salesmen. They are expected to plan their own activities in the field, including their movements from place to place. This does not necessarily mean that management has no control, for expense or call reports may be required, and from these the movements of salesmen may be traced without difficulty. Often advance itineraries are requested from salesmen, usually just to know of their whereabouts at all times, so that necessary contacts can be made without difficulty. Still, these itineraries may be checked by management and suggestions made for changes. Branch managers, in particular, may go over suggested itineraries for a week or more ahead with salesmen very carefully in order to see that coverage is adequate and expenses are minimized. Further control may be exercised as in the case study previously outlined in which itineraries were laid out far in advance through the joint effort of salesmen, management, and consultants. Routing may be rigidly prescribed for salesmen who handle low-value, staple products. Manufacturers of foods, drugs, tobacco, and hardware, for instance, may wish to have dealers called upon every week, every two weeks, or monthly. Route sheets list the names and addresses of dealers, and a certain number of calls will be expected each day. In contrast, route lists may just designate towns to be visited, their order of coverage, and the dates for coverage.

Need for Routing by Management. Unless a company's salesmen are of high caliber, some control of routing is usually needed. Evidence of ineffective routing with its resultant increase in expenses incurred

is not difficult to find. The following quotation is illustrative of the sort of condition which apparently is not uncommon:

> Under our old methods, our salesmen had followed the line of least resistance in traveling, as do the great majority of salesmen. Their tendency was to go only as far as would make it possible for them to get back home at night. Lengthy trips or circuits were postponed as long as possible. The result was that travel lines radiated from the home towns like spokes from a hub, adding thousands of unnecessary miles to the year's total. Besides adding to expense, this was serious because so much time had been spent traveling which should have been spent in selling. We decided to change all this by routing and scheduling our salesmen.[6]

While the situation depicted in this instance may not be typical, sales managers would agree that there is altogether too little planning of routes by salesmen, that backtracking is often practiced, and that special trips to call upon certain customers are often made which would not have been necessary, if routing had been more effective.

Whether routing by the home office is desirable depends upon such things as the nature of the product, the extent to which the market for a product has been developed, whether the majority of potential buyers are known, and the caliber of a company's salesmen. If a manufacturer of foods, drugs, tobacco, hardware, or fuel expects to get his share of the total volume of business, his solicitation of customers must be routinized. If calls are not made regularly, orders may be placed with competitors. Much the same conditions are present in the sale of supplies to manufacturers, to service establishments, such as laundries and dry cleaners, and to institutional buyers, either by wholesalers or manufacturers. They expect frequent calls and will usually place orders elsewhere if service is not given.

In contrast, other products, particularly equipment items, are not purchased regularly, and routine calls may thus have little virtue. Calls must be made frequently enough so the salesman knows when the buyer is likely to be in the market, but that is all. Attention should be given to those situations in which the likelihood of purchases in the immediate future is great. The salesman must play the market "by ear," rather than by schedule.

Detailed routing and scheduling of salesmen by management is not feasible in the early stages of market development for a product. It is a question of seeking out the potential customers, and then spending as much time with them as seems desirable at the moment. In most cases, all the potential buyers will not be known for some time, perhaps a number of years. Management is forced to depend upon the judgment of its salesmen to a large extent, although frequent confer-

[6] Charles H. Sevin, *How Manufacturers Reduce Their Distribution Costs* (U.S. Department of Commerce, Economic Series No. 72), p. 98 (Washington, D.C.: U.S. Government Printing Office, 1948).

ences on selection of customers, call frequencies, means of transportation, and routing furnish some measure of control.

There are very few situations in which some direction by management on customer selection, routing, and scheduling is not needed. It is equally true that there are very few situations in which some flexibility resulting from independent decisions by salesmen in the field is not needed. That which is needed is a nice balance between control from the office and the power to make decisions in the field.

Nature of the Routing Problem. Some indications of the nature of the routing problem were given in the case study previously outlined. First, decisions are needed on the salesman's place of residence and on the mode of transportation which is most suitable in view of the size of the territory to be covered and the density of demand. Then, if some decision has been made on the relative frequency of calls needed on different types or sizes of account, the bases are established for the mechanical task of determining just what routes the salesman should take and how often they should be traversed.

At times, it has been found useful as a starting point to consider only those accounts which are more or less normal, in the sense that they require about the same number of calls over a given period. Routes are laid out for such accounts and then those at each end of the range of calls are considered. Those at the lower end may be on the routes tentatively planned and can be contacted as often as necessary. Others may be contacted through alternate routes or side trips. Those accounts which require frequent calls may likewise be handled now and then through side trips, or special trips to them may be needed. At times, compromises must be made in the number of calls on particular accounts if the cost of these trips is too great. In one instance, routes were established of two general types: slow routes in which all customers were contacted, and express routes on which calls were restricted to accounts with high call frequencies. Slow routes might be covered only once or twice a year, while express routes might be covered monthly. Through this procedure, it was expected that the best market coverage would be secured with the fewest miles of travel. It should be recognized that coverage is more important than mileage reduction, but there can be a nice adjustment between the two if sufficient care is taken in laying out the routes.

Results of Effective Routing and Scheduling. While actual travel costs may be reduced through routing and scheduling, the greater advantage lies in the release of time from traveling which may be used for actual solicitation of customers. In the petroleum case previously mentioned, the time utilized in travel and with dealers was, in each case, about two and one-half hours in each eight-hour day. If this travel time could be reduced 20 per cent, all other factors remaining

constant, then time with dealers could be increased 20 per cent. This is the most productive time of the salesman. The six minutes used each day for dealer development could be increased five times. As in this instance, the time saved should be related to the time taken in solicitation or in important promotional work rather than to the total work day.

In one particular instance, it is claimed that rerouting saved 1.5 million miles of automobile travel per year for 105 salesmen, that the monetary saving totaled $65,000, that selling time spent with customers increased 16 to 21 per cent with an average of 19 per cent, and that the sales volume of members of the sales force increased substantially.[7] While results of this spectacular character would not be possible unless routing had previously been ineffective, they strongly suggest the likelihood of favorable results from investigation and action of a remedial character.

The second broad class of possible results is better coverage of the market and better service to customers. Routing and scheduling is planned coverage. Customers are not likely to be neglected if routes and calls are planned in advance. Salesmen are not likely to be swayed too much by previous success or lack of it, personalities of customers, distances of customers' locations from the headquarters location, difficulties of transportation, or by the inclination to procrastinate, if routes are laid out in advance.

Automotive Transportation Problems and Policies

Until after World War I, transportation for salesmen was not a problem in the sense that it called for managerial decisions. Railroad transportation was the only form available, and fares were not subject to negotiation. Routes could be laid out in view of train schedules, but transportation then became a fixed cost outside the realm of action by management. With the advent of the automobile, the transporation situation changed markedly. Here was a means of transportation which gave much greater mobility, reduced waiting time, transported salesmen's equipment as well as the salesman himself right to the location of the customer, lessened fatigue, and made possible much better service to the customer. After the highway network had been developed, all potential customers, whether on railroad lines or otherwise, could be reached without difficulty. In view of these advantages, business concerns soon shifted to automobiles for salesmen's transportation over short and medium distances, and with this shift came many difficult managerial problems. These problems will be discussed briefly.

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[7] *Ibid.*, p. 99.

Nature of the Problems. First, it should be recognized that any one or a combination of three general plans may be followed: (1) company ownership—reimbursement of salesmen for operational expenses incurred on the road; (2) salesman ownership—reimbursement for taxes, insurance, depreciation, and obsolescence, as well as operational expenses; and (3) rental agency ownership—payment on a mileage or time basis.

A company may purchase and service the motor vehicles needed, and then make them available to salesmen for use while on the company's business. In so doing, there is a financial problem involved, a technical problem, a cost-accounting problem, and a difficult problem of supervision and control. The capital commitment necessary is usually a heavy one, determination of what to buy and how to service vehicles requires technical knowledge, cost-accounting records are needed for guidance, and supervision and control are needed because an automobile can be used for personal as well as business reasons.

In contrast, a plan may be followed of having salesmen purchase their own cars which are then used for business purposes. Under this plan, the company is buying automotive transportation from its salesmen. The problem, simply stated, is to buy this transportation at an equitable price, all things considered. If all salesmen were using identically the same cars, if they were used in the same amount (mileage), if they were used under very similar conditions of climate, roads, traffic congestion, costs of gasoline, oil, and repair service, taxation and insurance rates—then the problem of paying salesmen a fair price for the transportation which they furnish their companies would be much less difficult than it actually is. In other words, there are many, many variables involved in determining a fair price for this service.

Under certain conditions, usually in metropolitan centers, cars may be rented from drive-yourself companies, thereby avoiding many administrative problems pertaining solely to transportation. In most instances, however, dependence on this method of securing transportation creates other problems, and therefore the plan is not customarily used, other than as a supplementary method.

It should be recognized that the problems created are not only of a technical character, but also that they affect relations between the salesmen and their companies at many points. The manner in which salesmen handle company cars, personal use of company cars, and allowances for the use of salesmen's cars for company purposes have been a prolific source of irritation and claims of inequity on the part of salesmen. Problems concerned with automotive transportation for salesmen often have been mishandled, with unfortunate results in salesmen's morale; therefore, they require careful study and effective administration by management.

Prevalence in Use. The most prevalent plan is for salesmen to own

cars which are used for company business. In one comprehensive study of several hundred companies, approximately 80 per cent of the total used this plan. In another study of 361 companies, published in 1947, the distribution of ownership was as follows: Company, 26.6 per cent; salesmen, 51.8 per cent; varies, 19.1 per cent; no automobiles used, 2.5 per cent.[8] The classification "varies" probably indicates that more than one plan was used, depending upon the circumstances involved. Company ownership was relatively more prevalent in companies which handled building materials, foods, beverages, dairy products, petroleum and rubber products; salesman ownership, in those which handled autos and auto parts, paper products, printing, and miscellaneous products.

Company versus Salesman Ownership. When management is attempting to make a decision on the plan to be used, there are a number of factors which must be taken into consideration, if a wise choice is to be made. First among these factors is the concentration or dispersion of operations. If, for instance, operations are concentrated in or around one or more large cities and many cars are needed, company ownership is more feasible. The cars can be purchased in quantity, serviced together, and their use can easily be controlled. Perhaps they can even be brought back to a central location each night without appreciable loss of time, thus largely obviating the problem of personal use. If a company also has extensive trucking operations, the two fleets can be handled together in housing and servicing. The only thing that the salesman will have to be reimbursed for is an occasional purchase of gasoline. Thus there is no personnel problem involved, for the possibilities of inequity are negligible. Costs are likely to be at a minimum because the company does its own service work, can be sure that cars are serviced properly, and has a large measure of control over their use. These advantages are less attainable to the extent that operations are widely dispersed.

The nature of the motor vehicles used by salesmen and the extent to which management believes that these vehicles should be identified with the company affect decisions on ownership. If the vehicle is of special type—such as the truck used for house-to-house selling of ice cream specialties or the type used by salesmen who deliver as well as sell merchandise—there is greater likelihood of company ownership. If the salesman's car is brightly painted or used as a means for advertising, it is also more likely to be company owned. Ownership by salesmen is usually an outgrowth of an attempt to secure dual use—both for business and personal activities. To the extent that the car is less acceptable to salesmen for personal use, either because of body type or company identification, the greater is the likelihood of company ownership.

[8] National Industrial Conference Board, Inc., *Salesmen's Compensation Plans* (Studies in Personnel Policy, No. 81) (New York, 1947), p. 32.

Another important factor usually considered is the extent of use. Companies whose salesmen use cars continuously, day in and day out, are more likely to practice company ownership. It is not a question of seasonal or part-time use but one of covering a territory routinely throughout the year. It has been stated that the breaking point between company ownership and salesman ownership on an extent-of-use basis is somewhere around 20,000 miles per annum; that on mileage over this figure there is likely to be some cost advantage in company ownership. Variation among salesmen in the mileage customarily covered for business purposes and, particularly, low mileage in many instances, would suggest salesman ownership. As an illustration of company ownership, General Foods Sales Division in 1948 had an average of 1,180 vehicles operated by salesmen, practically all of one make, which were used continuously. They are turned in or otherwise disposed of every two years or after being driven 40,000 miles, which ever comes first.[9] An inquiry as to why the company prefers company ownership elicited the following information:

1. We have found company ownership to be the least costly.
2. It would be difficult to establish fair rates for employee-owned vehicles.
3. In many cases, use of employee-owned vehicles would make it necessary for the employee to own *two* cars—one for family and one for business use.
4. It would be impracticable to choose and require each employee to purchase the type of vehicle best suited to his job, thereby forfeiting the benefits of standardization.
5. With employee-owned vehicles, many employees would neglect to take preventive maintenance measures, thereby increasing lost time due to breakdowns.[10]

In summary, concentrated operations; a large number of cars needed; special body types required for product storage, delivery, or for transportation of demonstration models or other salesmen's equipment; a companion truck fleet for delivery purposes; continuous use and a high mileage figure for all salesmen; unwillingness on the part of salesmen to purchase cars primarily for company use; and ample capital resources—all increase the feasibility of company ownership. The opposite conditions would suggest salesman ownership of cars. When cars are needed as a supplementary form of transportation upon arrival for salesmen who travel long distances by railway or by air, the drive-yourself agencies furnish a useful service. Not infrequently, more than one plan will be used by a company, for condi-

[9] "Auto Expenses Run 5½ to 6 Cents per Mile," *Sales Management*, September 15, 1948, p. 132.

[10] Correspondence with General Foods Sales Division. It was also stated that, "When final 1948 figures became available, we learned that our operating costs (covering only items listed in the *Sales Management* article) averaged 5.73¢ per mile for a total of 19,119,735 miles, covered by an average of 1,180 vehicles."

tions may vary sufficiently either as to product or market to make a dual plan advisable.

Other factors of a less definite character affect management's decisions on this matter of ownership. Some executives believe that salesmen will take much better care of their own cars than of company cars. They believe that the responsibility for operation, maintenance, and trade-in should be placed directly on salesmen for this reason and also because management will thus be relieved of administrative burdens which, in their thinking, can better be performed elsewhere. Perhaps there is less chance of friction and misunderstanding under salesman ownership, for the old issue of personal use of company property is obviated. Then, also, the salesman can purchase and use the make and type of car which he prefers, which has its advantages in comfort, and personal satisfaction. While factors of this character are not compelling, they do, nevertheless, affect decisions and probably account, in no small part, for the fact that salesman ownership is most prevalent.

Company Ownership—Administration of Plan. Some of the most difficult problems are eliminated by company ownership. The company is not buying transportation from its salesmen and therefore the question of an equitable price in cents-per-mile or dollars-per-day does not arise. Neither may it be necessary to get information from salesmen on the number of miles covered for business purposes nor to check on this figure periodically. The question of an adequate depreciation and obsolescence allowance is eliminated, other than as a depreciation reserve item. Still, however, some problems are created by company ownership. If the salesman is allowed to drive a company car for personal use, the company is selling transportation service to the salesman. Many companies permit such use. In the study previously cited, of 181 companies 51.9 per cent permitted such use, 36.5 did not, and 11.6 per cent said that it depended upon certain factors of which the one most cited was "in exceptional cases only."[11] Thus, in many instances, the problem of securing information on use for business purposes versus use for personal reasons remains for solution, whatever plan of ownership is used. A company will be able to determine, within reasonable limits, from itinerary or call reports whether expenditures for gasoline, oil, and miscellaneous items are reasonable or otherwise. If meter readings are required information on reports, a more precise check up is possible.

It is probably wise to adopt a reasonably liberal policy in regard to the use of company cars by salesmen. Dependence should be placed upon training, supervision, and a periodic check up, rather than upon regulations rigidly enforced to secure a reasonable amount of personal

[11] *Salesmen's Compensation Plans*, p. 34.

use and at the salesman's expense. It is well to remember that a company car is a piece of equipment used by a salesman to aid in the selling process. Its use should not be so conditioned that the selling process is hindered rather than facilitated. For instance, it may be required that the salesmen bring their cars to a central garage each night rather than leaving them at home. By such a requirement, half an hour or more may be taken from the time spent with customers. Of course, the car might be used during the evening for private purposes and such action not reported. Still the mileage for such use might not be greater than the extra mileage necessitated by the trip to the central garage. Thus it seems evident that a company could be "penny wise and pound foolish" in regulations surrounding car usage. It is preferable to give the salesman considerable leeway, and then to see that he does not abuse his privileges.

In one instance, cars may be stored either in public or private garages at the salesman's option; gasoline, oil, and lubrication may be purchased wherever the salesman desires; credit cards are furnished for use in purchasing tires of a certain make at company expense; washing and other incidental expenses are allowed; and salesmen are reimbursed weekly for all expenses incurred on company cars, other than those for personal use mileage. Personal use of company cars, unless excessive, is not discouraged. Expenses incurred are watched carefully at the district manager level and salesmen are asked to explain what appear to be out-of-line items. These are the general features of a plan which has been evolved over many years by a concern which has a large fleet of company-owned cars used regularly by its salesmen. Evidently it has worked well and has much to commend it.

Salesman Ownership—Administration of the Plan. The plan is to have salesmen purchase cars, presumably both for professional and personal reasons, and then to have them used while on duty on company business. Therefore, the company is purchasing transportation facilities from its salesmen and wishes to do so approximately at cost. Thus the whole problem of what it costs to operate a car under varying circumstances arises. In addition, management wishes to exert some measure of control, for transportation must be effective if the selling process is not to be hindered unduly. Obviously, frequent breakdowns or cars of poor appearance are negative factors to good performance by salesmen. There is likewise the question of substantial justice in payments to salesmen. Unless they feel that payments from the company cover the actual cost, they are likely to be disgruntled and morale is lowered. As noted earlier, the problem is a multivariable one and the solutions are many, varied, and often highly complex.

Basically, there are three classes of expenditure for motor vehicles, (1) day-by-day operating costs, (2) license taxes and insurance, (3) depreciation and obsolescence. They may be handled separately in

reimbursement to salesmen, or they may be lumped in some manner. Furthermore, they may be uniform throughout the market covered or differences in costs, area by area, may be taken into consideration. In a study of 284 companies, 6 per cent used a flat allowance of so much per day, week, or month; 61.3 per cent used a per-mile allowance; 15.1 per cent used a graduated plan whereby differences in mileage were allowed to have an effect; 14.8 per cent used a combination plan; and 2.8 per cent used others.[12] Moreover, it was indicated that, in comparison with a 1938 study, more plans now take into consideration the effect of varying mileages on costs of operation and, therefore, work on either a graduated or a combination plan.

1. The Flat Allowance. The flat allowance of so much per day, week, or month has little to commend it, unless it is varied to take into account the extent and cost conditions of car use by different salesmen. As variations abound, a flat allowance for all salesmen is likely to be inequitable. Also, unless it is changed frequently, there is the tacit assumption that use and cost conditions remain constant, which is not the fact of the situation. Its apparent simplicity may not be actual, for, in order to set flat rates which are equitable, much work by way of investigation is necessary. Perhaps its chief weakness is that it does not seem reasonable in view of the salesman's knowledge of variation in costs. Usually it is only an approximation of actual cost and not an exact one. Management may, nevertheless, prefer a flat allowance because it constitutes a fixed rather than a variable cost.

2. The Per-Mile Allowance. In this plan, the one most commonly used, management attempts to determine the per-mile operating cost, including all three basic types of expenditure, and then reimburses salesmen on the basis of their reports of mileage covered on company business. Only one variable, mileage, is allowed to have an effect on the amount of reimbursement. If a salesman travels 10,000 miles, each mile may yield five cents or six cents as the case may be. If he travels 20,000 miles, the same rate applies. The rate, it should be noted, is constant, which assumes that costs do not vary as different levels of mileage are reached. As a matter of fact, costs do vary; and, if a company wishes a nice approximation between reimbursement and actual total cost, the levels of mileage should be taken into consideration through a varying rate structure.

Moreover, the plan does not take into consideration the fact that costs of operation vary as between different locations of use and as between different makes and sizes of cars. Perhaps the latter should not be taken into consideration, for the company should not be expected to defray the expense for more than a reasonable minimum of transportation; that is, in cars such as Fords, Plymouths, or

[12] *Ibid.*, p. 34.

Chevrolets. However, if costs of operation at various points differ markedly, it would appear necessary to take this factor into consideration.

For the reasons indicated, this plan is not equitable unless all salesmen drive about the same number of miles and under like cost conditions for day-by-day operation, license, insurance, depreciation and obsolescence. As such uniformity is not likely, there may be a tendency to pay a per-mile rate which adequately reimburses the salesman traveling under conditions of highest cost. If this is the fact of the matter, then the company is paying more than necessary to many of its salesmen—perhaps a substantial total amount. It has been claimed that under a standard rate per mile for all salesmen 10 per cent are undercompensated, 10 per cent are compensated fairly, and 80 per cent are overcompensated for the use of their cars. While the per-mile plan does have a certain attractive simplicity, it is subject to severe criticism if, by its use, salesmen are usually overcompensated for use of their cars, and if it fails to take into consideration the fact that a company's salesmen may operate in various territories throughout the United States under different cost conditions.

3. The Graduated Plan. This plan remedies the chief weakness of the nonvarying per-mile allowance in that the rate per mile is varied downward as the mileage of travel increases. The plan recognizes the essential fact that some types of expense increase directly and proportionately with mileage and that others do not. The familiar day-by-day cost of gasoline, oil, and lubrication vary nearly, if not exactly, in proportion to mileage. The costs of batteries, tires, and miscellaneous items, such as washing, vary with mileage, but only roughly in direct proportion thereto. These cost items, together with another major item, depreciation and obsolescence, are partly functions of time, and still others, such as license fees and insurance, are entirely so. The over-all result of an analysis of the nature of these various costs leads to conclusions on the direction and rate of movement of per-mile costs as the total mileage fluctuates. The graduated plan recognizes a downward movement with increased mileage, perhaps, as follows: 6 cents for annual mileage up to 10,000 miles, 5¾ cents for 10,000 to 15,000 miles, 5½ cents for 15,000 to 20,000 miles, and, perhaps, even further reductions with yet larger mileages. While this plan is more equitable than the nonvarying rate plan of so many cents per mile, still it fails to take into consideration the further variable of differences in cost at various locations of car use.

4. The Combination Plan. Instead of attempting to recognize the variables involved through the establishment of one or more rates, management may recognize different types of cost separately through a combination plan. Reimbursement is usually made for operating costs on the basis of daily or weekly reports of expenses incurred or

mileage driven; reimbursement for taxes, insurance, depreciation and obsolescence expense is made separately at appropriate times. When these types of expenses are taken care of separately, the nonvarying per-mile allowance for day-to-day operation becomes much more reasonable. A flat per-mile rate may then be established for the use of all salesmen's cars which is not highly inequitable. However, it does not take into account variations in cost between different territories for items necessary for day-to-day operation.

The question may arise as to whether taxes, insurance, depreciation, and obsolescence should be defrayed by the company or by the salesman. It might be argued that these costs could not be avoided, if the salesman's car was driven only for personal use, if it was assumed that the salesman would have a personal car whether or not it was also used for business purposes. In view of this reasoning, policy varies in relation to reimbursement for these expenses. At times the company pays them, at times the salesmen pay them, and at times they are shared. Depreciation cost is in a different category. There can be little doubt that it is increased by use of a car for business purposes. The amount necessary for depreciation must be computed, and a decision made as to how the expense should be distributed between the company and the salesman. At times, the expense is shared in proportion to the mileage for business and personal use. When the salesman's car is used extensively for business purposes, the company often pays the entire depreciation cost. Some concerns follow the policy of placing depreciation allowances in a reserve account. Then the accumulated allowance is released when the salesman buys a new car. This plan has much to commend it. If salesmen do not adopt an adverse attitude toward it, the plan is workable and lessens the financial strain on the salesman when a new car is bought. Under this plan a salesman is more likely to purchase a new car when it is actually needed, and requests for financial aid from the company for this purpose are less likely.

Recognition of Cost Differences by Territories. It is probably true that no two salesmen operate their cars for business purposes under exactly the same cost conditions. Some variation in gasoline, oil, lubrication, repair, and other maintenance costs as between territories is likely. If the variation is great, it should be recognized. Each case can be handled separately by expense reporting and reimbursement, but this is costly from an administrative point of view. An attempt can be made to recognize regional differences rather than those of individual territories. The major share of the inequity in a single standard rate is then removed. Only cost differences between country territories and city territories may be recognized. While this probably removes one of the major sources of cost variation, still others persist. In general, the cost per mile in the Great Lakes area, in the North-

eastern states, and on the Pacific Coast are lower than in other sections of the country. Costs are particularly high in the Mountain states and in the Southwestern states, partly, at least, because of higher gasoline prices and adverse road conditions.

Computations have shown that the per-mile allowance necessary to cover variable costs for a 1948 Chevrolet Stylemaster Town sedan ranged from 2.75 cents in Boston, Massachusetts to 3.40 cents in Boise, Idaho, in 1948.[13] This difference of 0.65 cents per mile would underpay or overpay some salesmen $130 annually, if either the high figure or the low figure was used as a standard allowance. If these differences are as substantial as indicated, it would seem advisable to recognize cost variations by territories on an individual basis, or at least on a regional basis. Perhaps it would be wise to place the determination of rates in the hands of consultants who specialize in the handling of this complex problem and others of like character.

REVIEW AND DISCUSSION QUESTIONS

1. Discuss the nature of salesmen's work assignments. Classify these assignments on any basis you consider significant.
2. What conditions are likely to direct the attention of management to questions regarding specialization of salesmen by type of product?
3. What are the factors in relation to the product itself, the market, and the nature of the sales task which significantly influence decisions on product specialization by salesmen?
4. Indicate how questionable decisions on the constitution of a line of products will ultimately be reflected in difficulties of product assignment to salesmen in the field.
5. What justification do you discern for a dual policy in relation to the assignment of products to salesmen—i.e., specialization by part of the sales force on one or a few items and nonspecialization by other members of the sales force?
6. Under what conditions is it most feasible to have some of a company's salesmen specialize on certain types of customers?
7. Is further departmentalization in the home office or branch offices an acceptable alternative to further specialization of salesmen in the field? Explain.
8. How would you account for the fact that the principles of time and motion study have been applied only to a limited extent to problems in the marketing field?
9. Note the illustration of time utilization by a petroleum company's general salesmen on pages 763–64. Apparently, sales executives were surprised at the results of this time study. Would you conclude that the

[13] R. E. Runzheimer, "How to Compute Salesmen's Auto Allowances in 42 Areas," *Sales Management*, November 1, 1948, p. 120.

salesmen were in error, or management? What steps did management take to improve the situation? Can you suggest further action or, perhaps, further studies which might be helpful?

10. What factors are usually determinative in reaching a decision on company versus salesmen ownership of cars used in selling activities?
11. Distinguish between the flat-allowance, the per-mile allowance, the graduated plan, and the combination plan for reimbursing salesmen who use their own cars while engaged in a company's selling activities.
12. Attempt to formulate a short policy statement regarding automotive transportation for salesmen.
13. One of the leading hosiery manufacturers sells its first-quality product throughout the national market under a single, widely advertised brand. Department stores, women's specialty shops, and men's furnishing stores are the company's principal customers. In physical volume, sales are divided almost evenly between men's and women's hosiery; but in dollar volume, women's hosiery constitutes about two thirds of the total. All customers are solicited directly by the company's salesmen, who are paid on a commission basis with a drawing account provided to assure them a minimum income level. Salesmen pay their own traveling expenses. The rate of commission allowed varies with the size and type of territory assigned.

    Some years ago there was accumulating evidence that small accounts were not receiving sufficient attention. As a result, many of the smaller stores, while perhaps carrying the company's hosiery, featured other brands. The reason for inattention to small accounts, the sales manager thought, was that small orders seemed inconsequential to the salesmen, who frequently secured large orders from department stores.

    A number of alternatives were suggested for securing more attention to small accounts—for instance, that the sales force be divided into Class A and Class B salesmen; that accounts be divided between them either on the basis of the size of past orders or on the size of the city or town in which they were located. Class A salesmen would handle *only* large accounts wherever they were located, or *all* accounts in the larger cities. Class B salesmen, in contrast, would handle *only* the smaller accounts wherever located, or *all* accounts in the less populous centers. Another suggestion was that some salesmen handle only women's and children's hosiery, and other salesmen only men's hosiery; yet another, that each senior salesman be given a junior salesman, to be used principally, under the senior salesman's direction, on smaller accounts.

    Which of these assignment suggestions—by size of account, by location of account, by type of product, or by providing additional sales manpower—appears most feasible? What other suggestions would you make for securing more effective market representation?
14. Recently the Gulf Oil Corporation made an important change in its salesmen's assignments. Instead of having its salesmen sell only one or a few associated products (e.g., lubricating oils), assignments are now made on a customer, rather than on a product, basis. Customers

are classified into ten groups under two broad departments—retail marketing and direct marketing. Under retail marketing are farm, airport, service station, home heating, and marine customers. Products sold in these markets reach the customer, for the most part, through dealers. Under direct marketing are commercial, contractor, industrial, fleet, and transportation customers. Salesmen are assigned to one, or perhaps two, of these customer types; for instance, in the transportation market they might sell both to airlines and steamship companies. Salesmen represent the company before customers on all of its various products; therefore, only one salesman goes to each customer. Previously as many as five salesmen solicited the same customer. The situation has become increasingly complicated because Gulf, after World War II, had further diversified its line and its customers wanted to buy more and more of everything the company had to sell. Thus, under product specialization, the sales organization became larger and more complex. It was thought that at least some of the complexity could be eliminated through the new plan of organization and the new basis of salesmen's assignments. (Adapted from *Business Week*, October 8, 1949, pp. 64 ff.)

Prepare a short commentary on this case.

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Chapter XXVII

EVALUATION OF SALESMEN'S PERFORMANCE

ANOTHER important task of sales managers is to devise some means for measuring the effectiveness of salesmen. It is a difficult task, even in small companies, for selling under most circumstances is a complex activity. Altogether too often, performance is evaluated subjectively by the sales manager, or too much reliance is placed on one or more measures of relative performance, such as sales volume or the sales-expense ratio. Either the complexity of the task of evaluation is not recognized, or sufficient time and effort is not expended to do a good job of analysis and planning. Variation in performance by management in this area of evaluation of salesmen's performance apparently is wide, and for this reason, among others, it is worthy of discussion.

OBJECTIVES OF EVALUATION

The most obvious objectives relate to compensation and promotion. Most people would agree that salesmen should be paid in relation to their productivity in the tasks assigned to them by management. This assumes, of course, that definite tasks have been assigned, and their relative importance has been determined. Under these conditions, there is some possibility of measurement of productivity, which in turn becomes the basis of compensation changes. Evaluation is necessary to check progress, although compensation is not immediately affected. Information on relative performance is needed as a basis for changes in assignments to different territories, products, or types of buyer, or for decisions on promotion to managerial positions. It is a question of how well particular salesmen have done, not only on an over-all basis, but also on various types of assignment. In some instances, new assignments may constitute promotion, in others demotion, but always transfer. Evaluation of performance, as noted previously, is necessary for the analytical work of determining what human characteristics, formal training, environmental conditions and previous business experiences have a bearing on later performance on the job. These factors and some measure of later performance must be related if progress is to be made in selection and training.[1]

[1] See Chapter XIX, pp. 579–80.

Periodic evaluation of performance likewise has merit because of its effect on salesmen's effort and morale. This is particularly true if salesmen know on what bases their work is being judged. Through such a diagnosis, the strong and the weak points of each salesman can be determined, and then steps can be taken to improve performance. Soft spots in territory cultivation or development can be discovered, and measures can be taken to correct unsatisfactory conditions. Evaluation of salesmen's performance is in fact an evaluation of the effectiveness of territorial cultivation and, in yet a broader sense, of supervision and control. What a salesman does is, in part, a reflection of what his superiors do to aid him in becoming effective. Therefore, evaluations of performance may serve the broader objective of revealing the need for changes in procedure or even policy at many points in the selection, training, and selling process.

DIFFICULTY OF THE EVALUATION TASK

Evaluation of salesmen's performance is essentially difficult because so many factors may have a bearing upon salesmen's usefulness to their companies. As we have seen from job analyses, their duties are not only numerous but varied. In addition to their attempts to secure orders, they may be required to make collections, introduce new products, adjust complaints, advise customers on various matters, install display material, handle service work, secure market information, and to engage in yet other activities. Furthermore, some of the salesmen's activities have a future as well as a present effect. There may be no immediate, tangible evidence in increased sales volume of results from the performance of certain tasks but, in time, the results will begin to appear.

Another factor which makes evaluation difficult in certain cases is that the results of a salesman's activities may not be quantitatively measurable. For instance, in the sale of equipment or semifinished materials to large buyers, many people may in some manner contribute to the making of an important sale. Just how much the salesman contributes would be difficult to appraise, and an attempt to put his contribution into quantitative terms would be questionable. One sales manager in an industrial material line volunteered the information that little consideration was given to the volume of sales made in each territory as an indication of salesmen's performance. It was his contention that salesmen could not be judged by the sales made in their territories, for the aid given by the home office, district offices, and product specialists who were called in when needed varied too greatly.

It is difficult to secure anything tangible by way of evidence on performance of many tasks customarily performed by salesmen. For

instance, every salesman is expected to promote good relations with the customers whom he serves and constantly to discover new outlets and to interest new customers in his company's products. Where selling is concentrated and supervision is close, management can determine, within reasonable limits, whether these tasks are being performed and with what degree of excellence. Still, no precise measurement is usually attempted, nor would it be feasible. In other instances, and there are many of them, actual supervision in the field, other than initially as a feature of training, is not practiced. Then it is very difficult, for instance, to determine whether dealer relations are improving or deteriorating in a particular territory. Salesmen who are effective gradually build up their territories. During the process, there is some quantitative evidence in sales volume, sales to new accounts, and in a reduction in complaints that the process is going on. Much reliance must, nevertheless, be placed upon subjective evaluations of performance by the salesmen's superiors in the line of management. Someone has said that one mark of a trained and disciplined mind is the unwillingness to put into quantitative terms those things which, by their nature, are not quantitatively measurable. If the fact that there are such things among salesmen's activities is recognized, then most plans for evaluation of their performance will be in part subjective and in part objective. Despite the difficulties involved, there is evidence in the experience of many concerns that a sound, workable plan can be evolved for evaluating salesmen's performance.

Another complicating factor is the wide variation in conditions under which salesmen work. While quantitative evidences of performance, such as sales volume or gross profit secured by different salesmen, have some significance, still differences in either one may or may not reasonably be attributable to the work of the salesmen. In order to do so, there must be comparability in the conditions under which they work. The problem is one of single difference. The difference in this case is the contribution of the salesman to the selling process. If all factors but this one are held constant and there are differences in results—for instance, in sales volume—then we can reasonably attribute these differences to the varying contributions of different salesmen. In other words, there is good evidence of different levels of performance on their part. Let us suppose, however, that all other factors are not held constant, that there is no possibility of doing so, then their effect on sales volumes must be considered, as well as the contribution of the salesmen. These factors are many, but the most important ones are differences in the types of territory in which salesmen work, in competitive conditions, and in the potentialities for sale. Because of these factors, it *cannot* safely be assumed that differences in sales volume or in gross profit between two territories are an accurate reflection of the differences in performance on the part of

the two salesmen who handle those territories. In speaking of this problem, one vice-president in charge of marketing said that he would defy any person to look at the sales figures in various sales territories and come up with any valid conclusions as to the relative effectiveness of a company's salesmen.

The reason for stressing this principle of comparability is that it is so often neglected. It is assumed that the salesmen work under substantially similar conditions, whereas in fact they may not. To isolate the effect of one factor when many are present is always a difficult task and particularly so in the field of the social sciences. Therefore, this problem of evaluation of salesmen's performance should be approached with due respect and with a full realization of its difficulties.

FACTORS AFFECTING SALES PERFORMANCE

Prior to a discussion of basic methods of evaluation, including quota determination, the factors which affect sales performance will be discussed briefly. If certain factors affect all sales territories and salesmen alike, then they can be disregarded for all are then at the same relative advantage or disadvantage. The prices charged for a company's products may be high in relation to those charged by competitors, but they may be the same for all territories. The nonselling work load of salesmen may be so onerous as to affect performance adversely but may be identical for all salesmen. These factors and, perhaps, many others are uniform in their effect, but yet others, notably territorial potentiality, physical aspects of territories, competitive conditions, and aid given through advertising and other promotional work may vary greatly and affect sales performance substantially. It will be observed that these factors are much the same ones which are taken into account in the establishment of sales territories. There the problem is to adjust the sales territories to salesmen's abilities. It does not follow, however, that territories will be alike in other respects.

Potentiality for Purchases

The amount of potential business in a territory is probably the single most important determinant of sales performance. It is doubtful whether differences in salesmen's ability is even as important. Potential demand depends upon the number, size, and type of demand units in a territory. If the demand units are small, even though there are many of them, total purchases cannot be high. If they are widely scattered, the physical difficulty of getting to them will limit performance. In contrast, if a territory is small but still has a high potential demand, because many large buyers are included within it, sales are more likely to be high and expenses low. As the result of varying

potentialities of different territories, neither the sales nor the expenses of salesmen can be compared directly in most instances without injustice to some men.

Physical Differences in Territories

If territories are large and rugged, and transportation facilities inadequate, sales performance will necessarily be limited. More time must be spent on the road and less with the customer. Salesmen dislike such territories because opportunities for sales are limited and their cultivation requires long periods away from home. In contrast, territories may be largely urban in character. Transportation is much less a problem, more time can be spent with the prospect, and sales performance is thus at a higher level. Salesmen prefer territories of this character for obvious reasons. The records of salesmen who work in metropolitan centers or in any thickly populated territory, such as the Northeastern states, may, therefore, look much better than those of salesmen who work in the Mountain states or in the South Central states. Still, their records may actually be no better, if physical differences in territories are taken into consideration.

Competition

Competition affects sales performance, but not uniformly, and, therefore, must be considered by management when attempts are being made to evaluate salesmen's performance. There are many reasons for varying levels of competition in different parts of the market. One of the most important is the effect on sales of the location of a manufacturing plant. Companies are likely to be particularly strong competitively in the territories adjacent to their plants. These might be termed their areas of "natural advantage." They are favored by freight rates and by the fact that many people throughout the area have an interest in the company. Their promotional task is also less difficult near at home. In one particular study of the sales of motor trucks, it was found through registration figures that a manufacturer had a competitive advantage for a distance of 200 to 300 miles in all directions from the location of his plant. There is also a factor of historical accident in competitive position. Because of a "head start" or better representation over the years, certain companies are particularly strong in certain areas, weak in others, and the conditions may persist.

For these reasons, among others, the strength of competition in their territories must be taken into consideration in evaluating salesmen's performance. Improvement in a company's competitive position in a salesman's territory may be much more important as an

indication of performance than either sales volume or expense incurred. Salesmen's quotas almost invariably take into account this factor of competition.

Variation in Aid Given

In a very real sense, the contact between the salesman and the prospect is the culmination of the selling process. Through promotional effort of various sorts, the prospect has been conditioned toward purchase. In addition, the salesman may be aided directly through training on the job, conferences with supervisory personnel, the contribution of experts who are called in on particularly difficult problems, the service available from a nearby branch office, and in many other ways. If company support of these types is apportioned among sales territories or salesmen on some equitable basis, it need not be considered as a determinant of salesmen's performance.

There might be considerable difference of opinion, however, as to what constitutes an equitable basis. It might be argued that equitable apportionment of advertising and other promotional effort would be in proportion to potential demand. Therefore, if potentiality was taken into account, this factor would be also. In reference to personal aid, it might be argued that each salesman should be given the same amount. Other considerations, however, enter into decisions on the apportionment of promotional effort among territories and personal aid among salesmen. It is a question as to where such help will be most productive in sales volume. A company may recognize that certain territories have been undersold by the entire industry and may therefore believe that promotional expenses incurred in those territories will be particularly productive. Some territories may be in a competitive situation which requires an unusual amount of promotional effort. Some salesmen may be more receptive than others and, because of their recognition of its importance, may request more aid. Under any one of these conditions, certain salesmen may reasonably be given a disproportionate amount of aid. If such be the case, it must be taken into account in evaluating sales performance.

In one particular instance, a food-processing concern had done particularly well in a number of contiguous territories in the Midwest. Analysis showed that the company was making a much larger share of estimated total sales in these territories than elsewhere. The company's salesmen were thus given credit for doing an excellent job. Further analysis showed that, for some unknown reason, these territories had always received a much larger proportion of promotional expenditures than their potentiality for purchases warranted. When this condition was corrected, these territories lost volume and, in fact, reached a lower level of sales performance than some other ter-

ritories in which performance had been considered below par. The moral is clear. Sales performance was *not* indicative of salesmen's performance simply because salesmen in these territories were securing a highly disproportionate amount of promotional aid.

Other Factors Affecting Sales Performance

Any company may have certain factors peculiar to its organization and operation which will affect sales performance differently for different territories. Particular assignments may be given to some salesmen and not to others which, over short periods, may affect sales or expense adversely. More time spent on new account development, more attention to certain types or sizes of customer, or a change in routing, may be advisable but not immediately productive. In doing these things, salesmen are carrying out the assignments of management. Their performance on them may be excellent, but these activities may not have an immediately favorable affect on sales volume or the sales-expense ratio.

In attempting to relate salesmen's performance to sales performance, there must be a determination of the actual contribution of the salesman to any unit of business transacted. For instance, if a salesman is placed in a territory which has been developed by someone else, the question arises whether he should be given credit for repeat sales or the business from certain accounts. Also, at certain times some orders are secured as a result of circumstances quite outside of the salesman's control, as happened so frequently during World War II. A salesman should certainly not be given full credit for such business in judging his performance. Questions also arise as to where credit for performance should be assigned when certain large account in a salesman's territory are handled out of the home office, as well as when goods are purchased at one location and used in another. In evaluating salesmen's performance, questions such as these must be handled with care because there are important equities involved. In general, the rule should be followed that salesmen neither be given credit for performance in which they had no part, nor their performance judged on the basis of factors over which they had no control.

Summary

It should now be apparent that sales performance is the outgrowth of many factors, one of which is the contribution of the individual salesman. As other factors may vary in their effect, *sales performance as such* may *not* be a reliable indication of *salesmen's performance*. Again, it may be noted that if all other factors are constant, or can be held constant, differences in sales performance can be attrib

uted to the one factor, the contribution of the salesmen, and then sales performances would be a reliable indication of salesmen's performances. In general it can be said without much fear of contradiction that other factors do vary and therefore must be taken into consideration in evaluating salesmen's performance.

A number of procedures may be followed, any one of which may produce the desired results. Territories may be laid out with the idea of providing equal opportunity for sales, but this is seldom achieved. Furthermore, other bases for delimitation of territories are much more important than this one, and should be heeded. Another procedure often followed to good effect is to classify sales territories into a number of groups on the basis of similarity in size and type, in competition, and in sales potential. By so doing, much greater comparability is achieved, and relative sales volumes, sales-expense ratios, etc., become more meaningful as criteria for judging relative performance. Even when sales territories are classified in this manner, it may be discovered that within any one group sales performance is markedly dissimilar as between territories. Then the question arises as to whether the territories are, in fact, different in sales potentialities or in other ways, or whether the salesmen who handle them are dissimilar in their effectiveness.

The procedure just mentioned merges into another one in which the information on sales performance is assembled and then factors other than salesmen's performances are considered in an effort to explain the differences noted. In that event, the effect of these other factors may be termed "extenuating circumstances" which explain the failure of certain salesmen to have performance records as good as those of others. In each instance, the casual effect of factors other than effectiveness is considered in an effort to determine whether the differences in sales performance noted can or cannot reasonably be attributed to salesmen.

A wholly different approach can be taken to this question. Instead of taking these other factors into consideration *after* sales performance is determined, they can be considered *at the beginning* of a sales period in the establishment of quotas. The question which management then attempts to answer is, "What is a reasonable task for each salesman over an advance period, when *all affecting factors are taken into consideration?*" If this can be done successfully, then direct comparisons can be made between salesman A in the Denver territory and salesman B in the Providence territory, two territories in which sales performance might be markedly dissimilar. Management may go further and establish expense budgets for each territory. Then expense performance can likewise be compared directly, for the differences between territories in their need for expense, if the territories are to be cultivated thoroughly, has been taken into consideration in

the establishment of the expense budgets. Today many companies use some type of quota and budget system in an effort to secure greater comparability among salesmen.

CLASSIFICATION OF BASIC METHODS

Methods of evaluation can be broken down into three general types, which are as follows: (1) evaluation on a single base or a composite unit in reference to an average or a group standard; (2) evaluation on the basis of ratios between two variables, commonly expressed in percentage form; and (3) personal observation by supervisors, district or branch managers and/or home-office sales executives. The first two types are more objective, the third more subjective in character. In practice, one or more measures are likely to be used of each type. The third is almost inevitably used to some extent, either informally or in a more formal manner through the use of rating forms or other procedural patterns. Each of these general methods will be discussed, and then certain specific items will be discussed in more detail. Sales in relation to quotas and potentials—ratios expressed in percentage form—will be discussed separately because of their greater importance and greater difficulty in comprehension.

Single Base or Composite Unit Related to an Average or Group Standard

It is natural for sales managers to look at the total sales made by each man in the field as an indication of performance. They may likewise look at the data on the number of days worked, the number of calls made, and the number of orders secured as evidences of salesmen's performance. Data of these types have little if any significance, however, unless they are related to some base—for instance, an average for all men on the sales force or some predetermined standard as to what constitutes acceptable performance. It is not uncommon for sales managers to have data of this character compiled and presented to them periodically. When related to a carefully selected base, they have some significance. Number of calls in relation to an average or standard gives some evidence of relative activity, and number of orders, of salesmen's relative effectiveness in the field. The fact that one salesman, for instance, made 50 per cent more sales than the average cannot be wholly discounted, even though other factors may have had a bearing on the case.

While these data undoubtedly have some significance as evidences of relative performance, still they are not highly significant unless there is a reasonable degree of comparability in the conditions under

which a company's salesmen work. Number of calls, for instance, is more a function of concentration of buyers than of salesmen's industry or activity. Therefore, evaluation of performance on these bases must always be subject to question unless factors such as the type of territory in which salesmen's work, competition, and potentiality for purchases are taken into account.

Often the relationship between two variables is used to establish a composite unit which is then used as a single base for purposes of evaluation of performance. The variables most frequently used are sales, selling expense, gross profit, calls, orders, and number of customers. For instance, sales volume may be computed per call, order, or customer for each salesman. Gross profit and selling cost may be computed on like bases. There are many ways of relating these variables one to another. The result in each instance is a composite unit which may then be related to an average or a group standard. Again, as previously indicated, these data are only significant if salesmen work under reasonably comparable conditions.

In one particular instance, calls by salesmen ranged from 35 per cent more than the median for all salesmen to 27 per cent less. The top salesman made 85 per cent more calls than the lowest in rank.[2] The orders per 100 calls, a composite unit, ranged from a high of about 60 to a low of 23.3 for Type A customers and from about 58 to 28.2 for Type B customers. The median was about 40 per 100 calls. Comparisons were likewise made for orders per man-day, average order size, and sales per man-day.

After securing data on performance in relation to a certain variable—let us say, calls, orders, sales or a composite unit—management may set a certain figure which constitutes good performance in its judgment. This becomes a standard of performance. A number of standards may be set in an effort to secure comparability. A certain group of salesmen may have a standard of 10 calls per day, another group one of 15 calls per day, thereby recognizing territorial differences. Then their actual performance is related to these standards.

If there is a reasonable measure of comparability, data on relative performance on these bases are most revealing. Salesmen can be placed in a range of performance on numerous bases. Moreover, management is relieved from complete reliance on more subjective evaluations of men. Still these data must be used with discretion. Small variations in performance, as indicated by this type of comparison, should seldom be given much weight. There is too much inexactitude present. To do so would imply that the effect of all factors other than sales-

[2] These data are taken from Richard D. Crisp, *How to Reduce Distribution Costs* (New York: Funk & Wagnalls Co., in association with *Modern Industry Magazine*, 1948), pp. 153–54. It is suggested that chapter xiii, "How to Apply Objective Measurement to Salesmen's Activities," be read in its entirety.

men's effectiveness could be and had been measured exactly and that such factors did not change over short periods. In fact, most analysts are doubtful of their ability to measure their effects with much accuracy, and some factors do change rapidly—notably competition. Usually, however, there is a very wide range in performance on all of these bases and one which cannot be explained entirely, either by inexactitude in measurement or by a lack of comparability in the conditions under which salesmen work. Therefore, these data do have significance if used with a full understanding of their possible weaknesses.

Relative performance on different bases by the same man may likewise be informative. For instance, suppose that a salesman had better than an average record on number of calls per day but was considerably below average on number of orders per 100 calls. At least a tentative conclusion, subject to further investigation, could be reached that this man was industrious but, perhaps, not effective when interviewing prospective buyers. Suppose, in contrast, that a salesman's number of calls and orders per day were both well *below* average, that the number of orders per 100 calls was *high*, that the average size of the orders taken was also *high*, and that dollar sales per working day were approximately at the average level. The conclusion might then be reached, either that the salesman was not particularly industrious or that he spent much of his time with good accounts and that he was unusually effective during his interviews. In each of these two cases management has some important information, not conclusive, perhaps, but indicative of the nature of the salesman's performance in each instance, and of the lines along which further investigation should proceed. Some indication is likewise given of the corrective action which might be taken to make the salesmen more productive.

Ratios between Two Variables

Sales executives have become accustomed to the use of certain ratios as evidences of salesmen's performance. The ones most commonly used are expense as a proportion of sales, gross profit per sales dollar, selling expense as a percentage of gross profit, sales as a proportion of sales quota or potential in either dollar or physical unit terms, and number of customers as a proportion of the total number of potential buyers. The data assembled when these ratios are computed is revealing but again, in reference to performance evaluation, it may be a question of the opportunity for sales and profits and one of the expenses necessarily incurred in order to cultivate the territories assigned.

Factors outside the salesman's control, notably territorial differ-

ences, competitive conditions, and potentiality for purchases likewise affect results. The ratio of sales to quota is most significant because these factors have presumably been taken into consideration in the process of quota determination. If a quota as established by management is a reasonable task for the salesman to whom it is assigned, all factors considered, his sales in relation to it become highly significant as an indication of performance.

The ratios most commonly used in the evaluation of salesmen's performance will be discussed briefly.

Number of Customers to Potential Buyers. When a company has made a careful study of the potential buyers for its products and has classified them by size and type in each territory, the ratio between the number of customers and the total number of potential buyers becomes significant. It shows how far the salesman has gone in the attainment of a thorough coverage of the market in his territory and a successful coverage as evidenced by orders. When ratios are computed by customer size and type they may reveal that a salesman has been particularly successful with small accounts but has had little success with those of large potentiality. Or they may show that certain types of account—for instance, small manufacturers in contrast to retailers or wholesalers—have been handled successfully, whereas others have not. The salesmen's weaknesses are thus disclosed, and, perhaps, the weaknesses of their supervisors also are disclosed. At least, management has some indication of what sizes or types of account are being neglected and what ones are being handled successfully. This information, if substantiated by further study, may lead to a shifting of men between territories, in order to achieve a better adjustment between abilities and assignments or better supervision and control.

Sales to Expense. Management has become less interested in sales volume as such in recent years and has thought more in terms of profits. Profits are, of course, a function both of sales and of the expenses incurred in making them. There has thus been a tendency to look at sales-expense ratios as an evidence of salesmen's performance. At times, expenses other than those incurred directly by the salesmen may be included, for instance, advertising and other promotion, service, home-office sales expense, and that of field offices. These expenses are allocated to salesmen's territories and, together with those directly incurred, are related to sales volume. It is difficult to justify this practice, if the resulting ratio is used to evaluate salesmen's performance, because so many expenses are included over which the salesman has little or no influence or control. It can be argued that he does have some control over sales volume and likewise over direct expense, so the ratio between these two has greater validity as a measure of performance. Nevertheless, it must be used with discretion, for

some men will probably work in marginal territories in which expense will necessarily be high in relation to sales. Again there must be comparability between territories or this measure of salesmen's performance cannot be used for evaluation without injustice to some men.

Sales to Gross Profit. This ratio is more likely to be used by those concerns which handle a number of products on which gross margins vary considerably. Obviously, it is not a test of sales volume as such, but rather one of the distribution of sales over a company's line. If a salesman has made a large volume of sales, but predominantly of those products on which there is little if any profit margin, his sales-gross profit ratio will be low and his performance unsatisfactory on this basis of evaluation. On the other hand, he may sell a much smaller volume but of higher profit items. His sales-gross profit ratio will then be considerably higher and his performance will be considered more satisfactory. While the amount of gross profit might be thought of greater significance than this ratio, it should be recognized that neither the expense of getting orders nor of filling them has been taken into consideration. The net profit might be considerably higher on a smaller sales volume of higher profit-margin merchandise.

The validity of this ratio for evaluating salesmen's performance can be questioned on a number of bases. First, it cannot be used as a single base for sales volume as such; expense, and other factors are not taken into consideration. Second, it assumes that a salesman can directly influence the distribution of his sales over the product line and thus attain a high ratio if he so desires. While the salesman undoubtedly does have some influence, it must be recognized that what he sells is also a reflection of the efforts of his company and of the type of demand in his territory. This latter factor, in many instances, is the most important of the three in determining the distribution of sales over a product line. This ratio must, therefore, be used with discretion.

High Gross-Profit Sales to Total Sales. This ratio is closely related to the one previously considered. Instead of reducing gross margin to a single percentage for the sales of each salesman, the analyst looks at the distribution of his sales over the company's line and then draws conclusions on his relative performance. Sales managers may desire "balanced selling." To them, the term may connote what they consider to be the right distribution of effort over the various products handled, or a certain "product-mix," or distribution of sales productwise. The breakdown of each man's sales on this basis may be compared with the breakdown of total company sales for purposes of analysis. It may be found, for instance, that a particular salesman has made only 10 per cent of his sales in product A, whereas 15 per cent of the company's total sales are in that product. If this is a par-

ticularly high profit item and he is also low in other items of high profitability, it is considered evidence of poor relative performance.

For purposes of supervision and control, an analysis such as this has much to commend it. It leads to further analysis as to why salesmen differ in regard to the proportion of their sales in different products. Perhaps a distribution more favorable to effective operation can be induced by directing salesmen's attention to certain products. There is, however, considerable doubt about the use of this measure for evaluation purposes. The reason, as for the above ratio, is that *the market* often determines the distribution of sales over a company's line to a much greater extent than the salesmen. It is recognized that territories often differ substantially as to their potentiality for different products. If the concept of "balanced selling" is interpreted in the light of relative potentiality, this ratio is useful in evaluating salesmen's performance, but it must be used with care.

Proportion of Orders in Various Size Brackets. An analysis of orders by size brackets for each salesman may furnish some indication of relative effectiveness. One step in this direction is to compute the average size of the orders received in each territory and rate salesmen on this basis. This is frequently done, but further information is secured by a more detailed analysis in which the number of orders, the proportion of total orders, and the proportion of total dollar sales in each size bracket is shown. At times, an item analysis is made. For each salesman's orders, the average number of items purchased is computed. Some evidence is thereby furnished as to relative effectiveness in the sale of all of a company's products to customers. If a salesman rates high on the average number of items sold per order, it is a good indication that he is neglecting no part of his company's line. The reason for securing these types of information is that so many costs of getting and filling orders do not vary proportionately with the order size. As a consequence, many small orders are unprofitable, and sales managers have come to recognize this fact. Therefore, salesmen's performance can be gauged not only by their sales, but also by how their sales are broken down among orders. It is a first approach to a determination of the net profit secured from each of a company's territories.

An analysis of salesmen's records to determine the proportion of their orders in various size brackets usually shows substantial variation. As in most such instances, this result should lead to further investigation in order to determine whether there are any causal factors at work other than salesmen's relative effectiveness. Suppose the record showed that a territory included many large accounts, but still there were few large orders and the average size was low. Then a conclusion that performance was unsatisfactory on this basis might be justified. If a concern has rated all buyers on the basis of their poten-

tiality for purchases, it is not a difficult further step to classify orders received by size and then relate the two types of data. Then it will become apparent whether the distribution of orders by size is a direct outgrowth either of the type of territory in which a salesman works or of his relative effectiveness.

Personal Observation by Management

We now turn to procedures used in the personal evaluation of salesmen's performance. They must be used to some extent, for performance on certain parts of the over-all sales task cannot be measured with any exactitude. For instance, in one particular study among twelve factors most frequently considered for this purpose by seventy-three companies which reported the following factors were included; customer relations, ability to handle problems, personal qualities, efficiency in handling the affairs of territory, diligence and accuracy in reporting, knowledge of job.[3] The other six reported as used most frequently were capable of quantitative measurement but obviously these were not, at least directly. While it might be argued that these factors find expression in those quantitatively measurable—such as sales volume, profitableness of sales, and the sales-expense ratio—still, in the performance evaluation work of these companies, they were given individual consideration, and rated upon the basis of personal observation.

Subjective Evaluation. At times, personal evaluation is called subjective evaluation, in contrast to objective evaluation which suggests quantitative measurement. The term "subjective" is probably used because of the likelihood that personal factors will enter in when managerial personnel is attempting to make judgments on the performance of salesmen with whom they have frequent contact. Admittedly, it is difficult to be wholly objective in appraising the ability or performance of friends or acquaintances. Still, those given the responsibility for evaluation of performance can strive for objectivity. This means an attempt to view the performance of the various salesmen in a detached, impersonal, unprejudiced manner.

An awareness that there is a personal problem involved in so doing is helpful. The problem of evaluation is then approached with greater understanding and an appreciation of its importance. Personal integrity is greatly needed, for there is opportunity for rewarding undeserving friends and punishing those persons with whom there may have been disagreement or who are disliked for some reason. Because certain people on certain occasions may not be reasonably objective in their judgments, it is desirable to have two or three people make

[3] National Industrial Conference Board, Inc., *Measuring Sales Performance* (Studies in Business Policy, No. 31) (New York, 1948), p. 4.

judgments on the performance of each man. This has come to be accepted procedure. Judgments on particular phases of a salesman's work, if uniform when made independently by two or three men, are likely to be sound. If, in contrast, marked disagreement is apparent, it will probably lead to more careful investigation, and the truth may then appear. Experience seems to indicate that most supervisors, field managers, and sales managers take the work of evaluation seriously and often slave over evaluation forms. In general, evaluations appear to be accepted by salesmen without a feeling or resentment or ill will. If handled effectively, salesmen may come to think of performance evaluations as a means by which their performance can be improved and their earnings increased.

Rating Forms. Many concerns, in particular the larger ones, formalize the work of personal evaluation by the use of rating forms. There is an advantage in so doing, for greater uniformity is thereby attained. When a number of people are rating the same men, guidance is necessary, for otherwise their evaluations will not be comparable. Then, also, there is greater likelihood that the bases of evaluation will be the subject of careful study and that they will be in conformance with the whole selection and training program. Another advantage, a precautionary one, is that the use of rating forms is likely to preclude, in some measure, a careless, haphazard approach to evaluation. Such an approach is very likely in small concerns which have but a few salesmen. The use of a rating form, and, particularly, if more than one person is designated to make evaluations, forces people to make judgments on certain bases and then to support those judgments before others. This somewhat formal procedure, therefore, has merit and can be used with benefit by any concern.

An excellent example of a rating form, one used by General Foods Sales Division, is shown in Figure 27. Certain features of this form are particularly noteworthy—for instance, the inclusion of a guide to the evaluator and definitions of performance standards. These are usually provided, but separately. Through inclusion of these items, the form becomes more self-contained. The performance factors are not too many, nor is the rating scale too refined. In contrast, many rating forms list from 50 to 100 factors, moreover, the evaluator may be expected to check each factor as Unacceptable, Poor, Fair, Good, Very Good, or Excellent. Such an overly refined scale forces the evaluator to make a judgment for which a sound basis may be lacking. A three-way basis for rating—Unsatisfactory, Satisfactory, and Very Satisfactory—as in this particular instance, is usually enough for all practical purposes and within the evaluator's ability to rate with assurance.

It is expected that the supervisor will discuss each evaluation which he has made first with the district manager and later with the sales-

FIGURE 27

GENERAL FOODS SALES DIVISION—RETAIL SALESMEN EMPLOYE EVALUATION

Date_____

Name_____ District_____ Territory_____

Age_____ Total years of service_____ How long on this job_____ How long under your supervisor_____

GUIDE TO EVALUATOR

The care and accuracy with which this evaluation is made will determine its ultimate value to you, to the employe, and to the organization. The evaluation should reflect a sound and impartial judgment of the employe's performance of currently assigned duties and responsibilities.

A brief review of the employe's job description will aid in formulating a realistic appraisal based on actual job requirements and employe performance.

This is an evaluation based upon your own observations. Rate only what you have seen and personally know. Do not consider rumors or opinions of others. Leave blank any factor that cannot be answered through your own observations and check "No Chance to Observe."

Consider each factor separately and independently, regardless of whether other factors have been assigned high or low ratings. Ratings should be indicated by placing a check mark in ink on the appropriate performance standard.

The performance standards are indicated below. A salesman may be generally satisfactory, but specifically there may be instances which need improvement. A person is either satisfactory or unsatisfactory; and, if you cannot say he is satisfactory, you must say he is unsatisfactory and spell out the reasons. Checking a single factor as unsatisfactory doesn't mean he is a failure in the overall job performance.

DEFINITION OF PERFORMANCE STANDARDS

Very Satisfactory: Excellent, superior, exceptional.
Satisfactory: Up to standards, good, meets requirements or expectations.
Unsatisfactory: Below standards, definitely needs coaching, does not meet requirements.

PERFORMANCE STANDARDS

Factors	Unsatisfactory	Satisfactory	Very Satisfactory	No Chance to Observe OR Other Comments
1. KNOWLEDGE OF JOB				
a. COMPANY POLICIES—is he well-informed on the company policies which apply to his job?	Little knowledge	Satisfactory knowledge	Complete familiarity	
b. METHODS OF HIS JOB—Does he know the job requirements and recommended procedures for the efficient handling of his job?	Needs further training	Has satisfactory understanding	Knows completely job requirements and procedures	
c. COMPANY PRODUCTS—What is his knowledge of the products he handles?	Unsatisfactory	Good knowledge	Thoroughly familiar all products	
d. COMPETITIVE INFORMATION—Is he well-informed on competitive brands and prices?	Does not often know	Knows	Always fully informed	

2. QUALITY OF WORK				
a. SALES PRESENTATION—How skillfully does he handle his presentation?	Needs coaching	Satisfactory presentation	Most convincing, covers all steps	
b. FEATURE AND SHELF DISPLAYS—Is he building effective displays in the right locations?	Unsatisfactory	Good Displays	Unusually fine	
c. PRICING—Is he price conscious and does he obtain changes in prices out of line?	Could improve	Performance good	Skillfully obtains changes	
d. GENERAL LINE RESPONSIBILITIES—Does he cover the line to obtain additional business?	Misses out too often	Satisfactorily covers the line	Completely covers the line	
e. HANDLING DAMAGED MERCHANDISE—Is he successful in handling this standard procedure?	Unsatisfactory handling	Satisfactorily handles	Always	
f. GROCER & CLERK GOOD WILL—How well does he obtain their respect and friendship?	Needs training	On good terms with most	Highly successful	
g. PREPARATION OF REPORTS & RECORDS—How well does he assume his responsibility?	Should improve	Up-to-date and well organized	Always prompt, neat and accurate	
3. QUANTITY OF WORK				
a. ADEQUATE SALES VOLUME—Does he sell that amount of merchandise which will produce long term sales without overloading?	Needs training	Satisfactory volume	Outstandingly successful	
b. REINSTATEMENTS—Is he alert to lapses in distribution?	Usually notices lapses	Alert to "out of stock"	Extremely alert	
c. DISPLAYS—What is his record on number of displays obtained?	Only in a few places	Good performances	Consistently obtains large number	
d. ADVERTISING TIE-UPS—Does his record show he obtains volume, considering opportunities?	Needs coaching	Obtains volume	Gets excellent volume	
e. EFFECTIVE CALLS PER DAY—Does his record reveal he averages a high number of calls and are these calls effective?	Training required	Satisfactory	Consistently averages high	

(See over)

FIGURE 27—*Continued*

PERSONAL FACTORS				
	Unsatisfactory	**Satisfactory**	**Very Satisfactory**	**No Chance to Observe OR Other Comments**
4. INITIATIVE—Is he a self-starter?	Unsatisfactory	Good	Dynamic	
5. DEPENDABILITY—Can you rely upon him to carry out his responsibilities?	Needs to improve	Standard	Always	
6. PUNCTUALITY—Is he on the job at the specified time?	Below par	Generally	Yes—always	
7. TREATMENT OF COMPANY PROPERTY—How does he handle company equipment? Is he safety minded?	Unsatisfactory	Satisfactory	Extremely careful	
8. COOPERATION—How do you think he acts or operates jointly with all others?	Unsatisfactory	Satisfactory team worker	Excellent team worker	
9. PERSONAL CHARACTERISTICS—Appearance.	Could improve	Satisfactory	Always neat and presentable	

DEVELOPMENT PROGRAM	
Plans to help employe on factors listed below	**Plans employe agrees to follow to improve his performance.**

What is supervisor's current estimate of this employe's capacity and ambition for future growth?

Salesman's comments on evaluation

Signature of Salesman

Remarks:

Rated by ☐ Dist. Rep. ☐ A.D.R. Date

Dist. Mgr. & or ADM Date

Discussed with Salesman by Date

Sales Mgr. Date

Reviewed by: District Rep. Date

Personnel Mgr. Date

Effectiveness of this evaluation may be increased if a completed copy is given to the salesman

man. The reasons for the ratings assigned are explained in full. The salesman is then invited to make a written comment on the evaluation including any ratings on which he may not be in agreement. Note the space reserved for a development program on the form. Both the supervisor and the salesman are expected to indicate what steps they will take to secure better performance. Both are expected to sign the form, and retain a copy for future reference. It is suggested by management that discussion should be on the basis of two members of a team working together to attain the greatest possible measure of effectiveness and understanding.

Another example of a rating plan, one used primarily for bonus compensation, has been developed and is now used by Libbey-Owens-Ford Glass Company. It differs appreciably from the one previously discussed. While the salesmen of both companies are engaged primarily in promotional work, the salesmen of Libbey-Owens-Ford call on architects, contractors, and on manufacturers, many of them large, and work closely with them in an attempt to solve their problems. Selling is an extended promotional and educational process, and, if successful, may result in contracts for a substantial amount of product over a long period. A number of company representatives may have some part in any sale and thus it is difficult, if not impossible, to ascribe a certain sales volume to any particular salesman. At one time, the company used district sales quotas, but these proved unsatisfactory for evaluating performance because assignment of responsibility was difficult. Experimentation with a rating plan led to the one now used, which management feels is at least reasonably satisfactory in view of the difficulty of rating this type of sales performance.

The plan is said to have a twofold purpose: (1) to give each field representative an indication of the way his work is regarded by the company, and (2) to establish a fair basis for payment of a sales bonus, when the company decides to pay a bonus. All salesmen, district managers, and regional managers are rated annually by three individuals and the numerical ratings are averaged to determine a composite score. Salesmen are divided into three groups. Those individuals included in Group I have no supervisory responsibilities, while those in Group II supervise one or more persons. The regional sales promotion managers were designated as Group II-A and rated separately. The rating forms vary in part for each group. Moreover, the executives responsible for the task of evaluation differ, depending upon the type and responsibilities of the persons being rated. The positions in each group, and the positions of the executives who are given responsibility for rating in each instance, are given in Figure 28.

The form used for Group I is given as Figure 29. While the forms used for Groups II and II-A will not be given, they are in large part identical with the Group I form. Each year when rating begins those participating are handed the form which they filled out the previous

FIGURE 28

LIBBEY-OWENS-FORD GLASS COMPANY
POSITIONS RATED AND RATING PERSONNEL

GROUP I

Position	*Rated by*
Sales representative Distributor sales	1. District sales manager 2. Regional sales manager 3. General manager, distributor sales department
Sales representative Industrial sales	1. District industrial manager 2. Regional sales manager 3. General manager, industrial sales department
District sales manager	1. Regional sales manager 2. General manager, distributor sales department 3. Product managers, distributor sales (Average of products managers counts as one rating only)
District sales manager Industrial sales (Supervising no salesmen)	1. Regional sales manager 2. General manager, industrial sales department 3. Product managers, industrial sales (Average of product managers counts as one rating only)

GROUPS II AND II-A

District sales manager Distributor sales (Supervising one or more salesman) Architectural consultant	1. Regional sales manager 2. General manager, distributor sales department 3. Product managers, distributor sales (Average of product managers counts as one rating only)
District sales manager Industrial sales (Supervising one or more salesman)	1. Regional sales manager 2. General manager, industrial sales department 3. Product managers, industrial sales (Average of product managers counts as one rating only)
Regional sales manager	1. General manager, distributor sales department 2. General manager, industrial sales department 3. Vice-president in charge of sales
Regional sales promotion manager	1. General sales promotion manager 2. Regional sales manager 3. Vice-president in charge of sales

year. Information on each man's previous composite rating is also furnished at that time. Then each evaluator proceeds independently. Note that the first decision required is to place each man in one of four general brackets. After this decision is made, the evaluator is

FIGURE 29

LIBBEY-OWENS-FORD GLASS COMPANY

RATING FORM—GROUP I

1. Appraise performance of employee during period since last appraisal.
2. Consider each factor separately and indicate with check mark (√) on each horizontal line at that number which most nearly expresses your appraisal of performance.
3. Make appraisal unbiased to the best of your ability.
4. In case of newer men with the company or men in new jobs, effort should be made to rate according to expected results in such paragraphs as Nos. 1 and 4.
5. Make any comments which you believe necessary in explaining your appraisal.
6. Total the checked ratings vertically and enter at top of sheet in space provided.

Date_____

Name of man rated_____

Position of man rated_____

Rating_____

Rated by_____

1. Knowledge of company products, prices, and advertising and sales promotion programs.	Unusually well informed. Keeps abreast of new developments.	Satisfactory knowledge.	Familiar with routine matters. Requires help frequently.	Inadequate knowledge. Makes little effort to learn.
	15 14 13 12	11 10 9 8	7 6 5 4	3 2 1 0
2. Ability to plan and organize work and to use time wisely.	Exceptional ability, requires little direction.	Assumes some initiative but needs guidance.	Lacks planning ability. Wastes time.	Does only what he is told.
	10 9 8	7 6 5	4 3	2 1 0
3. Thoroughness and accuracy of reports and records of calls.	Reliable and complete records of work done.	Usually accurate and complete records.	Inferior reports and records.	Careless and incomplete records.
	10 9 8	7 6 5	4 3	2 1 0
4. Relationship with the trade, architects and contractors, and employees.	Exceptionally well liked and respected by trade and associates.	Works well with others. Favorable impression.	Nothing outstanding.	Creates discord.
	15 14 13 12	11 10 9 8	7 6 5 4	3 2 1 0
5. Initiative and creativeness in presenting LOF products to the trade.	Shows considerable initiative and makes frequent suggestions.	Shows initiative occasionally. Makes some suggestions.	Rarely presents new ideas or suggestions.	No creative effort.
	10 9 8	7 6 5	4 3	2 1 0

Continued

FIGURE 29—*Continued*

6. Interest in and aggressive attitude toward job.	Extremely aggressive, striving to get ahead.	Industrious worker.	Easygoing, does minimum required.	Indifferent attitude and lack of interest.
	15 14 13 12	11 10 9 8	7 6 5 4	3 2 1 0
7. Judgment and common sense.	Thinks quickly and soundly. Attempts to get all pertinent facts.	Judgment usually sound.	Hasty conclusions.	Inclined to be illogical.
	10 9 8	7 6 5	4 3	2 1 0
8. Ingenuity in obtaining reports of competitive activities, prices, etc.	Well informed about competitive activities and programs in his territory.	Occasionally learns of competitive prices and plans.	Complacent about lost orders or specifications to competition.	Fails to appreciate competitive angles at all.
	5	4	3 2	1 0
9. Personal appearance.	Neat in dress and appearance.	Reasonably careful about dress and appearance.	Not particularly neat. Careless of appearance.	Slovenly in appearance and clothing.
	5	4	3 2	1 0
10. Personal financial affairs.	Capably handles personal financial matters under normal conditions.	Handles personal financial affairs with integrity.	Not too responsible in personal financial matters.	Personal financial affairs in constant turmoil without cause.
	5	4	3 2	1 0
Comments:				

expected to grade each man more finely through designating a particular number. Shades of opinion can thus be expressed. When all reports are in, the ratings on each basis are averaged, and the total score for each man is computed. Comparisons can be made between individual scores and the average for each item rated, also between individual composite scores and the average for all men rated in a particular group.

A number of questions may be raised in relation to this plan of rating salesmen. It will be observed that the various items included in the form for Group I carry different weights. Items 1, 4, and 6 can be scored zero through 15; items 2, 3, 5, and 7, zero through 10; items

8, 9, and 10, zero through 5. It is interesting to note that on the Group II form the first eight items are scored 0 through 10 and the last three, 0 through 5. For instance the item "Knowledge of company products, prices, and advertising and sales promotion programs" is scored 0 through 15 for sales representatives and district managers who do no supervisory work, and 0 through 10 for district managers who do supervisory work and for regional sales managers. Knowledge of this character is evidently considered of less relative significance for the latter group than for the former one. This difference is noted to emphasize the fact that there has been conscious choice in determination of these weightings. Someone must judge the relative importance of the various items to the company. Usually the weights finally selected are the consensus of a number of executives. This weighting must be done deductively and with great care; otherwise, the composite scores will not truly reflect a man's relative performance.

There is also the usual question of whether more quantitative means could be used for measuring performance. Evidently this is largely precluded by the fact that much of the sales effort is of a promotional character and, even when sales are made, a number of representatives may have contributed to the result. Nevertheless, those who rate the men may be aided by information currently available. Salesmen's reports should help on the rating of items Nos. 2 and 3; complaints from the customers, if any, on items Nos. 1 and 4; and expense report data, on the item "sales and expense control" which is used on the form for Group II representatives.

The question may also arise as to whether any distinction should be made in the rating procedure based on tenure with the company. For instance, in relation to item 1, "Knowledge of company products, prices, and advertising and sales promotion programs," it could not reasonably be expected that a new salesman would rate as highly as one who had been with the company for many years. The author was informed that those responsible for rating were asked to take a man's experience with the company into consideration. While this might be done effectively, the question might be debated as to whether it would not be preferable to disregard tenure at the time of rating but to compare composite scores of experienced and inexperienced men separately later. The reason is that it is difficult to keep two concepts in mind when rating men. The two concepts in this instance are those of effectiveness on certain bases and reasonable expectation on these same bases in view of tenure. On some of the bases, notably personal appearance, tenure would be of no significance. On others, notably knowledge of products, prices, advertising and sales promotion programs, tenure would undoubtedly have an influence.

In many cases, the question arises as to whether the people designated to rate the performance of others have sufficient knowledge of their work to do so intelligently. The question is particularly pertinent

when home-office people are asked to rate field representatives. Obviously, no sales manager can rate the work of each of several hundred salesmen on the basis of personal observation of their work and a knowledge of their personal characteristics. Either more objective measures of performance would have to be used or rating on the basis of personal observation reserved to each man's immediate superiors in the field.

In the example cited, the company has a relatively small sales force. At times they are brought together at the home office, also home-office executives do a considerable amount of field work. Reports, letters, and other materials which furnish indications of performance come in to the home office regularly and to the attention of those executives who perform the rating function. In view of these contacts with representatives in the field, home-office executives feel that they have a sufficient basis to rate field representatives. Moreover, the other two people who rate sales representatives are one of the district managers and the regional sales manager. Therefore, any error in rating by an executive at the home office would be well diluted by a difference in the judgments of people in the field. The chief contribution of home office executives is probably in the rating of district and regional managers of whom there are few, and with whom home office executives would have frequent contact and thus frequent opportunity for personal observation and informal evaluation of performance.

When the rating has been completed and the composite scores determined, those rated are informed of their standing. The strong and weak points in each man's performance are indicated to him and means for improvement are suggested. If there is dissatisfaction with the rating given in any particular case, management is willing fully to discuss the matter with the sales representative. The objective is to let each man know how management regards his work and to give assistance in every possible way toward the improvement of performance. Executives of the company feel that, on the whole, the plan has been reasonably satisfactory and has contributed significantly to improved performance and to initiative on the part of sales representatives through the bonus plan for which it provides the necessary data.

PERFORMANCE EVALUATION THROUGH SALES QUOTAS[4]

In previous chapters, in connection with quantitative investigation of the market, the determination of market potentials, sales potentials, and sales quotas was discussed at some length. These three terms were defined, and the close interrelationship between them indicated. Sales quotas were likewise mentioned in relation to control, supervision, and stimulation of the sales force. Quotas are used for incentive pur-

[4] Prior to a discussion of this subject, it is suggested that students review pp. 253–63 in Chapter IX.

poses and thus were discussed briefly along with other means of stimulating salesmen to greater effort. Performance in relation to quota gives some indication as to whether greater supervision and control are needed. It likewise serves as a basis for incentive compensation, which will be considered in the chapter which follows. The principal use of the sales quota, however, is as a standard of performance to judge the work of salesmen, sales branches, districts, or other territorial units to which quotas may be assigned. For this particular purpose, it may be the only basis used. If quotas are established with care and with all the accuracy possible, in view of the difficulties involved, performance in relation to them is the best single measure for determining relative performance. Often it is used, however, in conjunction with other measuring devices—for instance, performance in relation to an expense budget, or rating based upon personal observation of sales managers or supervisors in the field.

Historical Perspective on Quotas

John H. Patterson, of the National Cash Register Company, used sales quotas as early as 1888. In this respect, as well as others, he was far ahead of his time in the field of sales management. It was not until after World War I that the idea of quotas took firm hold on management, and experimentation in their use began on the part of many concerns. One author said, in 1929, that confusion reigned in the field of sales quotas, still they apparently were considered by some sales executives as a panacea for all marketing ills. During the 1920–29 decade, there were many articles and monographs on this subject, and interest in them was at a high level.[5] This interest was an outgrowth of numerous factors: among them, of various attempts to measure the extent of the market for different products relatively, by geographical or political areas and in total. The need for more extensive marketing data was becoming widely recognized, and this recognition found expression in the first Census of Distribution in 1929.

Management also recognized the need for more reasonable territorial assignments to salesmen in order to attain a thorough and uniform coverage of the market. It was also increasingly recognized that the sales volume secured by a salesman was not only a function of his own ability and industry, but also of the opportunity for sales in his territory. From these factors came a recognition of the need for a more effective means of measuring salesmen's performance, and sales quotas seemed to be the answer. While in the early days, there was often too little market information available to set quotas with any nicety or accuracy, this difficulty, in many instances, has now been

[5] See C. E. Griffin, *Sales Quota Systems* (Michigan Business Studies, Vol. I, No. 5, School of Business Administration, Bureau of Business Research) (Ann Arbor: University of Michigan, 1928).

overcome. There is still a lack of appreciation, in many quarters, of the difficulties involved in the establishment of sales quotas and of the methods which have been evolved to do such work effectively. These methods are still being refined, and information on methodology is still being disseminated through addresses, articles, and books. Progress both in securing data and in using it for quota purposes is, therefore, still being made.

Prevalence in Use

Sales quotas have been found a useful managerial device by many companies and therefore are in common use. Still it should be recognized that their effective use depends upon extensive analytical work such as that discussed in Chapters VIII and IX, which some companies are not in a position to do. Often they are used without such work, but then they have little significance. If a company has only a few salesmen and they work under close supervision, means for evaluation of performance other than quotas may be used with acceptable results. Under such conditions, little analytical work will be needed; but in large concerns, its avoidance will undoubtedly result in less effective operations.

If selling is primarily of a missionary sales character, sales quotas are not likely to be used. In a situation in which it is difficult to attribute sales to the efforts of any one person, quotas for individual salesmen are unlikely. But for most concerns, sales quotas are a useful device and during the past two or three decades, their use has become common. The prevalence of use is indicated in a study of compensation plans made in 1947.[6] Of 407 concerns which furnished information, 182 or 44.7 per cent set quotas for individual salesmen. Of the total, 23 concerns or 5.7 per cent stated that their practice varied and 202 concerns or 49.6 per cent answered in the negative. Use was most prevalent among concerns which handled building materials, foods, rubber products and textiles, and least prevalent for those which handled auto parts, chemicals and drugs, metals, and electrical equipment. Machinery, paper, printing and publishing were about in line with the figures quoted above. While these data on use are not conclusive, they do indicate that quotas are in wide use and by many concerns of diverse character.

Variations in Quotas

Sales quotas may be established in terms of monetary or physical units, or, perhaps, in points which may include performance goals on a number of bases. Usually dollars are used, but in some instances,

[6] National Industrial Conference Board, Inc., *Salesmen's Compensation Plans* (Studies in Personnel Policy, No. 81) (New York, 1947), p. 12.

in order to facilitate comparisons between years through eliminating the effect of price differences, the number of units or weight may be used. For instance, a manufacturer of mixed feeds for animals, uses tonnage, and an automobile manufacturer uses number of units rather than their value. Another variation is the extent to which quotas are broken down by type of product, type of buyer, segments of territories, or, perhaps, by specific customers. For instance, an over-all quota assigned to a particular salesman might be sales of $100,000 with no specification whatsoever as to product, buyer, or location. In contrast, while the quota might be of like amount, it might be broken down to such an extent that the expected volume of sales from customer X in each of various products would be specifically stated. The objective in mind in so doing is one of control. If a salesman is failing to make his quota, his sales record to date can be analyzed to see in what types of product, in what parts of his territory, or in sales to what specific customers he is falling below quota. Remedial action can then be taken.

A further variation is one of time covered by sales quota assignments. Usually quotas are assigned for an annual period in advance. For instance, in November or December quotas for the following year will be announced to all field personnel to whom assignments are made. Quarterly quotas are not unusual, however, or at least a quarterly review of quotas in order to ascertain whether they are still reasonable in view of changed conditions. In one particular instance, that of a container manufacturer, quotas are set quarterly on each major account, first by the salesman, then revised by mutual agreement between the salesman and the branch manager, and then finalized by the home-office sales managers. As performance in relation to quotas is often used for compensation purposes and as conditions in the market often change over short periods, quarterly quotas are considered more desirable than annual quotas.

Objectives of Sales Quotas

Sales quotas are a managerial device for measuring sales performance and are therefore used along with other devices for purposes of determining compensation, promotion, selection, and for bringing about a proper adjustment between men and jobs. They also serve as standards of performance for each sales representative in the field and for the territories for which they are responsible. To have such standards of performance is important in itself, for people are likely to work harder and more effectively if that which is expected of them is known in advance.

One prominent sales executive spoke of the quota system used by his concern as an operating tool which would (1) measure the true

results of individual salesmen and marketing units; (2) disclose weaknesses and indicate the corrective action needed; (3) flag the areas of potential, either area or product, not being covered or developed; (4) determine man power requirements, need for more sales outlets, specialized coverage, etc.; (5) aid in deciding where and what sales promotion is needed to strengthen operation; (6) serve as a true indicator of competitive position in each territory; (7) assist in setting budgets and controlling distribution costs; (8) serve at the territory level as an incentive to do a well-balanced, all-out selling job.[7] It is evident that a sales quota system is thought of not only as a device for the evaluation of salesmen's performance, but also as one for achieving a greater measure of control over field operations. The manner in which quota systems are used to attain the objectives listed above will become more apparent in the forthcoming discussion.

Administration of Sales Quotas

If a quota system is well thought out in advance, well devised, and properly administered, it can be a powerful instrument in the hands of management to secure not only the right attitude on the part of field representatives toward their jobs, but also an increased effectiveness in their selling tasks. In contrast, if the quota system is poorly designed and ineffectively administered, it can destroy the very climate which a company is attempting to create. In those companies which emphasize quotas, the importance of his quota to the individual salesman cannot easily be overstressed. Nothing is much more important to him as a professional man than that his quota be correctly determined, for it is the device by which both his absolute and his relative performance is largely determined. His performance in relation to quota may affect his earnings, his opportunities for promotion, and the attitude of his superiors in the company's organization toward him.

Quotas must be acceptable to those individuals to whom they are assigned. If they are too high, salesmen are likely to become disgruntled and discouraged. Quotas which are too high may also induce sales methods which in the long run are injurious to a company's relations with its customers. On the contrary, if quotas are too low, they do not provide the necessary incentive for effort. If they are not right from the relative point of view, the evidence of discrimination in the assignment of quotas, even though it was not intended, may create personnel problems. As a rough generalization, it is more important that quotas *seem* reasonable and attainable than that they be correctly established.

[7] From an unpublished address by Ray R. Eppert, Executive Vice-President, Burroughs Adding Machine Company, Detroit, Michigan.

Salesmen should be given the opportunity to question their quota assignments and to discuss these with management if such discussion is desired. Quotas should be capable of justification and, if the salesman wishes it, the method of quota determination should be explained to him. While it may not be necessary for the salesman fully to understand all the statistical steps involved, still the factors taken into consideration, the reasons for their inclusion, and the relative significance attached to each can be explained without too much difficulty. The attitude of management should be a reasonable one. If a salesman proves that certain conditions exist in his territory which were unknown to management and which will adversely affect sales, the salesman's quota should be changed without hesitation. When it is recognized that a quota is only a goal and that great preciseness is never attainable in forward estimates of what should be accomplished by salesmen, adjustment in a quota which attains better morale and greater co-operativeness may be highly desirable, even though not fully justified by analysis.

The question often arises whether quotas should be subject to revision during the period for which they were assigned. The practice of companies differs on this point. If business conditions deteriorate materially and this deterioration was not foreseen, it may be well to adjust quotas. Furthermore, conditions may deteriorate regionally and thus make certain quotas appear altogether too high. Either the quota can be reduced as soon as the condition becomes evident, or the fact of lesser opportunity for sales can be taken into consideration when the salesman's performance in relation to quota is being judged at a later date. From the point of view of the salesman, it is preferable to reduce his quota. This is tangible evidence that the company recognizes that his quota is no longer a reasonable one. The salesman may reason that his superiors may or may not recall the reduced opportunities for sales when comparisons are being made later. It can well be reasoned that if it is desirable to establish sound quotas in the first place, it is also desirable to keep them sound during the period to which they apply. However, the inference should not be taken that quotas should be changed with any slight change in business conditions, either nationally or in particular territories.

PERFORMANCE EVALUATION THROUGH EXPENSE BUDGETS

At times, in the evaluation of salesmen's performance, companies lean toward the territorial net profit approach. Through an allocation of expenditures of various sorts, profit and loss statements are prepared for each territory. As a control device, this approach may have some virtue, but as one for the evaluation of salesmen's performance,

it has little merit. Territories differ too greatly, both in opportunities for sales, and in the expenses which must be assumed for adequate coverage. Still, it is not unreasonable to establish both sales quotas and territorial expense budgets to cover those expenditures which are required to keep the salesman in the field. This is not the amount of expenditure which can be justified to obtain the assigned sales volume. Rather it is an estimate of the amount of expenditure which will be needed if the salesman cultivates his territory in the manner suggested by management.

If expense budgets are established through a careful study of desirable itineraries, the needs of different types and sizes of account for calls, the number of calls which can reasonably be expected in view of the size of the territory and the distribution of accounts over it, and in view of prices for the various services which the salesman needs while in the field, then performance in relation to the expense budget has significance. It is an additional bit of evidence which should not be disregarded, because it may strengthen the case for either good or poor over-all performance.

SUMMARY

The information secured from studies of salesmen's performance may be used for such purposes as: a basis for incentive compensation, promotion, assignments to jobs which more fully utilize indicated characteristics or abilities; for determination of what factors condition sales performance as an aid in initial selection; and for inducing greater effort, more effective effort, and higher morale on the part of the salesmen. It is this latter purpose which merits most emphasis. This diagnostic approach to sales performance yields information which can be used in supervision, guidance, and training through which performance can be improved. In each instance, because of performance ratings, supervisory personnel knows what to stress in order to overcome weaknesses. If certain weaknesses in performance are general, some reflection may be cast on supervisory methods as such or even on company personnel policies.

Incentive toward improvement in performance is furnished by the knowledge that performance will be evaluated periodically and that the results will be known by company executives. The establishment of sales quotas and expense budgets for individual salesmen likewise furnishes an incentive for improvement because it is recognized that, in time, actual performance will be compared with these individual standards. Trends in performance, both as a composite and on individual bases, can be observed and related to an average in order to determine relative position. When there is evidence of improvement, effort will be further stimulated and morale strengthened. These pos-

sibilities depend very largely on the adequacy of the evaluation procedures and their acceptance as valid by sales representatives.

Largely because of the difficulties involved, certain errors often creep into the evaluation process which produce inequities among salesmen. The most usual of these is direct comparison between men on various bases when, in fact, they work under quite dissimilar conditions. This is admittedly unsound, and so recognized by most sales managers. Nevertheless, they are prone to assume comparability in market conditions where it does not exist in sufficient extent to permit of direct comparisons.

In many instances, there is not sufficient time and effort expended to do an effective job of evaluation. As a result, too narrow a basis is used in the evaluation process. There are advantages and disadvantages in the use of each particular base, whether it be a ratio between two variables, a single variable in reference to an average, performance in relation to quota, or personal observation. Each may give some indication of absolute or relative performance. Often a number of bases must therefore be used if inequities are to be avoided, and a broad picture of each man's performance secured. If a number of bases are used, greater confidence in the essential equity of evaluations may result from the accumulative evidence pointing in a certain direction. If there is marked variation in the conclusions as to performance on the various bases used, further investigation is indicated. Experience indicates that reasonably sound conclusions can be reached on salesmen's performance, if the nature of the problems involved is recognized, and if sufficient time and effort is expended to do the job well.

REVIEW AND DISCUSSION QUESTIONS

1. Why is it necessary for every concern that employs salesmen to evaluate their performance on the job?
2. Evaluation of salesmen's performance is a multivariable problem. What are the principal variables involved? Are they subject to measurement? What is the "single difference" which management is attempting to measure in evaluation studies?
3. A vice-president in charge of sales said that he would defy any person to review the data on sales in various territories to which salesmen were assigned and, from such data alone, arrive at any valid conclusions as to the relative effectiveness of these salesmen. What are the probable bases for his conclusion?
4. Distinguish between "sales performance" and "salesman's performance," as used in this text.
5. Characterize the various methods which may be used singly or in combination for evaluating salesmen's performance.

6. What quantitative data are most frequently used as an indication of absolute or relative performance on the part of salesmen? Why must they be used with discretion?
7. "Data on a number of ratios relating to performance considered as a group are more informative than data on the same number considered individually." Do you agree? Why?
8. How may comparisons of performance based on ratios between two variables or on data related to a fixed base be made more significant when there are substantial differences in the conditions under which salesmen work?
9. What further studies are usually suggested by an examination of quantitative data which reveals a wide variation in the performance of various salesmen, and likewise, inconsistency in performance on the part of certain men?
10. What factors not subject to quantitative measurement must be taken into consideration if salesmen's performance is to be correctly evaluated? Consider the question whether the relative presence of each of these factors is revealed by other factors which are quantitatively measurable.
11. How may a greater degree of objectivity be attained in the rating of salesmen on those factors which do not lend themselves well to exact measurement?
12. Refer to the form for evaluation of salesmen used by the General Foods Sales Discussion (Fig. 27). Critically evaluate this form and the procedure attendant to its use.
13. Review, step by step, the rating method used by the Libbey-Owens-Ford Glass Company (Figs. 28 and 29, and the accompanying text), and attempt to answer the following questions:
    a) Why, in this instance, are sales data and ratios of various types of little value in the solution of the evaluation problem?
    b) What are the specific objectives of the rating procedure?
    c) How were the factors for rating, and the weighting given to each, determined?
    d) Note Instruction No. 4 on Figure 29 in regard to scoring items Nos. 1 and 4. Is it reasonable to ask for scoring "according to expected results"? How might this scoring be handled otherwise and, perhaps, with greater accuracy?
    e) Consider the question of whether those executives who are responsible for scoring have sufficient information to do so with reasonable accuracy; or, in contrast, whether they are too close to the salesmen to permit an unbiased judgment.
    f) On what bases would you commend or criticize the procedure here outlined for evaluating salesmen's performance?
14. Review the definitions of (*a*) market potential, (*b*) sales potential, and (*c*) sales quota given in Chapter IX; likewise the procedures commonly used for determining quotas.
15. What are the objectives of sales quota systems? Attempt to state just

how these objectives can be attained by the use of a quota system.

16. The administration of sales quota systems is essentially a sales personnel problem. Discuss.

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Chapter XXVIII

COMPENSATION OF SELLING AND SUPERVISORY FORCES

COMPENSATION may be defined as the reward which an individual gets for placing a portion of his time and effort at the disposal of an employer. For selling work, it is likely to be in the form of a salary rather than in wages, for payment is usually made for a week or month rather than on a daily or an hourly basis. Furthermore, those characteristics which are usually associated with salaried work —that is, the taking of responsibility without close supervision, the judicious treatment of confidential information, the custody of property, and the safeguarding of the interests of the employer when dealing with others—are all present in selling work.

Compensation is often thought of and spoken of as being entirely monetary, but nonmonetary rewards enter in likewise. It is not uncommon for a salesman to stay with one concern when, for the same amount of time and effort, he could get a higher salary elsewhere. When an individual decides whether to go with a certain company or whether to shift from one to another, he is influenced not only by the immediate salary offered, but also by expectations of future salary, the attitude of a company toward its employees, whether the name and reputation of a company lend dignity and prestige to its sales representatives, the excellence of a company's products, benefits such as group insurance and athletic facilities, and a host of other such factors. Some of these can be translated into monetary terms, but others defy quantitative measurement. They are, nevertheless, a part of compensation because they affect the supply price for labor for selling activities. Of course, they are likewise consciously taken into consideration by company executives when making an offer to a prospective salesman.

One excellent concern in the late thirties reduced its beginning salary to trainees without previous selling experience to $75 per month—a salary level considerably below the one which then prevailed in other concerns. While this decision may have been a questionable one, executives felt that nonmonetary considerations should prevail in decisions on job acceptance, and that prospective salesmen

who were not really enthusiastic about the company and its products would be weeded out through the salary offer before a heavy training expense had been incurred for them.

The solution of the problem of compensation begins with job analysis. It is a question of determining salary ranges in view of the demands of the selling task for ability and basic training. With a thorough knowledge of the over-all sales task at hand, an intelligent decision can be made as to what these qualifications will command by way of salary level in the labor market.[1]

COMPENSATION AND THE LABOR MARKET

A salary level may be defined as a rough approximation of what a company will have to pay individuals within determined ranges of ability and training in view of the competitive demand for them. In other words, it is roughly determined by the market for such labor. In order to find out what the market rate is, a company may exchange information with competitors or, perhaps, with other companies whose selling task does not differ materially, although they sell different types of product. Competing offers to salesmen and sales supervisors which come to the attention of management also furnish a clue to wage levels and changes in them. Such information is always needed, for it is a question of constant adjustment to a shifting general level. As it is governed by supply and demand, a change in business conditions may raise or lower the level appreciably in a relatively short period.

Although a concern must be guided by the general level of salary for a certain grade of salesmen, still inexactitude in what the market rate actually is and individual differences among salesmen make other than rough approximation unlikely. Even if a company has all the information obtainable, it can discover little by way of precise market values, and rough adjustments through decisions by company executives are thus called for. In this connection, the salesman is midway between executives and specialists of various kinds and routine workers who have fewer skills and are less specialized. For the former, the market is very "thin." The lack of precise values in the market for the services which executives and salaried workers in the higher ranges of ability are prepared to offer reflects specialization, sheer inertia on their part, a loathness to change because of nonmonetary rewards, and other barriers to transfer from one concern to another. Because of a greater absence of these factors, the value of the services

[1] For a brief but excellent discussion of the development of position classifications and grades, the establishment of salary schedules, and their administration, see Robert I. Marshall, "A Salary Plan in Operation," *Personnel*, Vol. XIV, No. 3 (February, 1938), pp. 107–17.

of routine workers is determined more precisely by the action of the market. Salesmen run the whole gamut in relation to specialization, but, since we are not concerned with retail selling in this discussion, it is reasonable to conclude that by far the greater share of them have specialized knowledge and skills.

To a greater extent than for other salaried workers in the higher ranges of compensation, the salesman is protected by the market. He is in much better position to find out what other salesmen who perform like tasks are being paid by their companies. Through direct questioning, he may get an inflated salary figure from another salesman, but he can usually make a shrewd guess as to the correct amount. Salesmen also have greater mobility than other salaried people. By temperament, they are neither so loath to change, nor are they so influenced by long-continued associations. They work alone to a greater extent than other salaried people and often far removed from frequent contacts with other company employees. These factors all contribute to labor turnover in the sales force and broaden the market for the services of salesmen. They likewise narrow the range of market values for such services.

Although resort to the market is the ultimate test of an individual's earning power under a competitive system, it is a very inadequate protection when the work of salesmen is extremely specialized. There may be only two or three companies which can utilize the unusual skills which specialized salesmen possess, and, moreover, there may be a gentlemen's agreement among these companies that they will not raid each other's sales forces. Under such conditions, there is little by way of a real competitive market for these special skills in selling. While a highly specialized salesman is accorded some protection by the value which the market places on the ability to sell as distinct from the ability to sell a certain type of product or service, the protection is not great, and thus the employer must accept the responsibility for a compensation policy which protects the interests of its salesmen as well as company interests. *Resort to the market does not furnish the answer to compensation disputes or compensation policy when the work of the salesman is highly specialized.*

COMPENSATION POLICIES

As a point of departure, companies may base their salary levels for salesmen on those which are customary or standard in their particular industries, or they may act more independently in an effort to attract and hold just the type of individuals whom they particularly want. If such individuals can be secured through careful selection procedures, a company may decide to pay more than the "competitive level" as a matter of business policy. It might be termed a policy of

high level compensation. If a skilled sales force is needed, the payment of something in addition to what a man might expect to get elsewhere may draw the more able men to a company's employ and hold them against counter offers afterward. Thus a measure of generosity in compensation may be farsighted policy. It may likewise furnish a needed incentive to salesmen. Usually they work independently rather than in groups. They cannot be forced to work energetically by the pressure of oncoming material or by continuous supervision as in factory work. In the absence of these, the attitude of the salesman, whether he is reasonably satisfied with the treatment which he is accorded by his company, becomes of greater immediate importance, for it may have a marked effect on sales volume. Even though there may not be ample profit margins in particular industries, it is doubtful if a company can afford to be penurious in relation to the compensation of its salesmen.

Furthermore, it should be the policy of business concerns to provide a reasonable measure of security and of opportunity for its salesmen. The chief objective of all workers is to maintain a satisfactory level of living, and, if possible, to improve that level. They likewise desire to save and accumulate in order to provide for the future and its various contingencies. Failure to provide sufficient compensation for a minimum level of satisfactory living has a whole train of unfortunate results: among them, a lack of self-confidence on the part of the salesman, worry because of financial difficulties, unsatisfactory home conditions, attempts to secure part-time jobs to supplement income, a run-down appearance, and, perhaps, too much pressure on the potential buyer if compensation is on a commission basis. Moreover, the salesman is likely to do those things which may produce immediate results and neglect those vital activities which are productive of long-range benefit. And, finally, if he cannot make a comfortable living, he is likely to seek employment elsewhere and thus help to produce a greater turnover in the sales force with its attendant costs.

Failure to provide at least a reasonable measure of regularity in income may have the same unfortunate results. Although the average income over a period of years may be sufficiently high to allow for a reasonable level of living, it should not be allowed to fluctuate too widely. Salesmen are not likely to exercise foresight and save for the proverbial rainy day. Thus many concerns have adopted a policy of regularizing compensation. They do not place the risk of a reduction of earnings because of a reduction in sales volume solely on the members of the sales force, but the companies assume part of that risk themselves. Compensation schemes which provide for a base salary of reasonable proportions, plus some incentive payments, recognize the need for assurance as to income despite the condition of the mar-

ket for a product or business health in general. In all probability, a company is in better position to take the risk of a reduction in sales volume than is the individual salesman.

A compensation policy which attempts to get the maximum value from salesmen for a minimum of pay is a highly questionable business policy, and, furthermore, any company which follows such a policy is being neglectful of its social responsibilities. Policies of this sort are all too frequently encountered among business concerns. Companies differ markedly in their whole attitude toward compensation. This can be illustrated by the compensation plans of two companies which were in direct competition. One of these companies in the thirties started its salesmen at a very low straight salary plus a commission on sales. If the salesmen survived with the company, they came under a straight salary plan in later years after they had become proficient in sales work. As training was largely neglected and the compensation gave no assurance of adequate income, representation was ineffective and the turnover rate was high.

The other concern started its new men at a relatively high straight salary. Salesmen went through a well-conceived training program, acted as junior salesmen, and finally attained senior status after a year or more of service. Then, *after* they had demonstrated their ability to sell and income was assured, they were put on a commission plan. As they were carefully nurtured during their unproductive period through training and assured income, the rate of turnover was low, the quality of representation was excellent, and the men had great loyalty to the company. From a long-range profit approach, the second policy is more profitable and, in addition, it develops human values. This is one mark of a company which acknowledges its responsibilities under a competitive social order.

Finally, as a matter of policy, a company should attempt to treat its salesmen fairly and impartially. It is that part of a company's compensation policy which finds expression in the attempt to pay each salesman on the basis of his contribution to the performance of the sales task, and on the basis of his proficiency in the position to which he is assigned. It finds expression likewise in provisions for equality of opportunity for nonmonetary compensation, such as additional training, educational and athletic facilities, and for advancement, either by salary increase or by a shift to a more fertile territory. This is not primarily a matter of wage level or of what might be termed absolute compensation, but rather one of relative compensation, of what one man gets in a company's employ in relation to others.

In order to act impartially, a company should keep adequate records on the activities of its salesmen. Otherwise there are no quantitative data available on which advancement and additional compensation can be based and, as a result, subjective evaluations which are

much more likely to be in error must be relied upon. New men, in particular, should be watched closely and their progress recorded. They are the most fluid element in a sales force and their compensation requires more executive attention if a correct relative compensation is to prevail.[2]

THE PROBLEMS OF MANAGEMENT

The problems of management in relation to compensation are ever-recurring ones. Some salesmen improve their performance either absolutely or relative to other salesmen. Relative positions in performance shift constantly. Moreover, the demands of a company on its salesmen may change and, perhaps, require more effort and the taking of additional responsibility on the part of some salesmen compared to others. The addition of new products, the cultivation of new outlets for a company's products, or the offer of additional services to the customer may appreciably alter the sales task and thus affect compensation. Business conditions may also change markedly and necessitate an adjustment in salaries. As a lower price level usually follows in the wake of a downward spiral in business activity, a reduction in salaries may be necessary to put into effect a policy of maintaining, but not increasing, the real income in goods and services during a business depression. A downward movement in business may also make more advisable those compensation schemes which provide a greater measure of incentive than the ones in use.

Some methods of compensation attempt to secure a more or less automatic adjustment of compensation to performance by the salesman—for instance, a straight commission on sales. Other plans provide for salary adjustment at less frequent intervals, presumably on the basis of information secured about the salesman's activities and results during the intervening period. This is the situation under a straight salary plan. But in either case, executive attention to problems of adjustment is needed. Under a commission form of payment, the commissions themselves have to be adjusted in order to secure right relative salaries, for the same commission rate to all salesmen is not equitable unless the opportunities for sales are equivalent in each sales territory. One salesman's territory might yield twice as much as an-

[2] The compensation policies which have been approved and adopted by a group of leading companies are as follows: (1) to gear salaries to the market, (2) to value uncommon services with reference to the salaries for common services, (3) to make salaries for like services consistent between departments, (4) to govern the individual's salary by his proficiency in his position, (5) to treat an employee's questions regarding his salary candidly, (6) to retain centralized control over salaries although administration is decentralized. The application of these policies has been mutually beneficial to both employees and employers. See John W. Riegel, *Salary Determination* (Report No. 2, Bureau of Industrial Relations) (Ann Arbor: University of Michigan, 1940), chap. ii.

other's, although the same quality and amount of effort was put forth in each. Thus, to preserve equity, sales executives are under the necessity either to equalize the sales territories from the viewpoint of sales opportunity or to adjust commission rates to compensate for the difficulty of making sales.

An attempt to solve the problem through equalization of territories may create problems of another type. If equalization is the only criterion used in establishing territories, they may not be acceptable from the standpoint of sheer size, available transportation routes, and other factors which are important in breaking down the market among salesmen into manageable units. Both equalization of territories and adjustment of commission rates in accordance with the difficulty of making sales are laudable attempts to pay the salesmen the right relative salary. They solve the problem only partially, however, for immediate sales volume is not the only evidence of a salesman's value to his company.

It may be the desire of management to pay salesmen in accordance with the value of each man to the company—that is, in accordance with productivity. But the precise value of the salesman is usually difficult to determine with an acceptable degree of accuracy as many factors have a bearing on a salesman's usefulness to his company. The effectiveness of salesmen on some tasks is measurable, while effectiveness on others almost defies exact measurement. One reason is that some of a salesman's activities have a future as well as a present effect —for instance, the promotion of healthy relations with customers. Indirect evidence can be gained from such things as the attitude of the salesman toward his job and from correspondence with customers. Nevertheless, there is always some doubt as to the effectiveness of salesmen in reference to certain parts of the sales task and this complicates the compensation problem.

From the foregoing discussion, it becomes evident that variation must abound in the plans by which salesmen are paid. Inasmuch as the sales task may be more or less complex; as the factors which give value in salesmen's performance may be more or less subject to measurement; as products and markets differ substantially and may be in differing stages of development; as the company in question and the number of salesmen which it employs may be either large or small; the problem is one of choosing from among a relatively small number of basic plans and then of molding that plan to fit the needs of a specific situation. Even for a particular company, there may not be only one choice to make, for with different products and with markets in different stages of development, variation in the compensation plan may be called for. Moreover, the same product may have more than one type of market, which may call for different types of salesmen, differing activities on the part of salesmen, and, perhaps, a quite dif-

ferent method of compensation. Management needs to be fully aware of the variables present in order to select a plan which fully meets the needs of a given situation.

DESIRABLE CHARACTERISTICS OF A COMPENSATION PLAN

Policies in relation to compensation are put into effect through the selection of a plan or scheme for paying salesmen. There are a multiplicity of these, some of which are highly imaginative. Basically, they are all variations of two main plans, straight salary and commission, although bonus may supplement either. These may be considered the parent schemes from which others of greater or lesser variability have sprung. Prior to a discussion of the various plans in use and their merits and faults, those features which are desirable although not always attainable will be considered.[3]

1. *The plan of compensation used should encourage adherence to managerial policies, both as regards objectives and methods of procedure.* This is the most important single requisite of any compensation plan. Presumably management has clearly determined both immediate and long-run objectives, has studied the methods of procedure which might attain these objectives, has made certain decisions, and has retained salesmen to help carry out these decisions. The plan selected for compensation should in no way be productive of actions or attitudes on the part of salesmen which may help to defeat the attainment of desired objectives, or which will run adverse to company policies. The plan should be so designed as to make salesmen willing to follow the procedures in selling which management has determined to be most effective. It should make possible, without undue friction, that degree of control and supervision over salesmen which is needed in view of the selling task.

2. *A plan for compensation should reflect accurately the policies of a company in relation to compensation itself.* A plan should be developed and, after operation for a reasonable length of time, reviewed with these policies clearly in mind. Either a good or a poor plan, if ineffectively administered, may in actual results deviate from company policy. Although the greater error is likely to be the sheer absence of a defensible compensation policy, still a plan used for compensation, if not well geared to policy, may likewise seriously obstruct effective operation.

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[3] For another list of desirable characteristics of a compensation plan, see Larrabee, "Incentive and Compensation Plans for Salesmen," *Training and Paying Salesmen* (Consumer and Industrial Marketing Series, CM 29) (New York: American Management Association, 1938), pp. 19–24; or *Tested Compensation Plans* (New York: McGraw-Hill Book Co., Inc., 1937), pp. 35–44.

3. *A plan should base compensation only on factors over which the salesman has control.* Basing an individual salesman's compensation on the profit achieved in a branch office, for instance, may be questionable, for many factors are present—such as branch overhead, promotional effort, and, perhaps, the price charged for the product—all of which affect profits but none of which are likely to be controlled by salesmen. In contrast, there are many factors over which the salesman does have some control, such as his own expense, the use of displays by dealers, and terms of payment. Even over such factors he may have only slight control and, therefore, they should not be allowed to affect his compensation too greatly. Whether salesmen's compensation is being based on factors over which they have no control or, stated conversely, whether they are being penalized in compensation because of ineffectiveness in certain activities, the responsibility for which cannot be traced directly to them, is always a good test of a compensation plan.

4. *A compensation plan should not be so devised as to overpay salesmen in times of great business activity when sales are made with relative ease and to underpay them when adverse conditions prevail.* A plan which has such results does not produce the necessary regularity and assurance of income. Furthermore, the likely outcome, as far as the company is concerned, is a greater total payment than would otherwise be necessary, for it may not be possible to shift all of the risk occasioned by reduced sales to the sales force. Many companies have found it necessary to supplement the earnings of salesmen under a straight commission plan in times of depression. It may become a question of providing for greater earnings or of losing good men when they are most needed.

5. *A compensation plan should provide enough incentive so that the salesman keeps active in his company's employ.* Perhaps some provision should be made for rewarding both steady performance and extra effort. The important thing is that the salesman should be assured that additional effort and results on his part will not be overlooked by management. Some plans, such as straight commission and point systems, pay directly for demonstrated results; others furnish incentive less directly through knowledge that periodic review and adjustment of salaries, based on accumulated data on accomplishment, will be made.

6. *Any plan should provide, in so far as possible, for objective evaluations of the salesman's performance.* How well a salesman has performed his various tasks should not—unless performance is simply not subject to quantitative measurement—be the unsupported opinion of a sales executive. Even under straight salary, a salesman should know on what bases his work is being judged; and under other com-

pensation plans, such as the more complex commission form of payment, the salesman, as well as people in the home office, should be able to compute earnings.

If a plan provides for objective rather than subjective evaluations, personal considerations which may cause bias and favoritism are not so likely to prejudice the position of a salesman. There is likely to be a more straightforward, rational treatment of the whole compensation question. Moreover, the most probable result is a more accurate determination of compensation than when objectivity is absent.

7. *A compensation plan, either in its basic features or in its administration, should be reasonably sensitive to changes in the performance of salesmen.* A plan should not be so highly inflexible in form or in administration that men who have let down in their efforts still obtain the same salary or that men who have improved their performance are not rewarded soon thereafter. Rather it should so function that improvement in performance or a poorer showing are rewarded or penalized with reasonable promptitude.

8. *Complexity in compensation plans should be avoided.* This appears to be an obvious requisite of any plan proposed by management, but it has particular significance in view of the complexity of the salesman's task. Because of this complexity, there has always been an urge to devise systems which pay for performance in relation to numerous parts of the complete sales task such as collections, the getting of new dealers, and the distribution and actual use of display material. Such systems have merit, but they can become unbelievably complex and thus are confusing to salesmen. Furthermore, they are likely to require more attention on the part of management and more expense for computation than simpler schemes.

9. *A compensation plan should have the approval both of management and the sales force.* This statement suggests that management should make some attempt to determine whether the plan in use is generally considered as satisfactory or whether even a substantial minority of salesmen feel that changes should be made. Unless there is a preponderance of favorable attitude, further study of compensation is surely in order. Salesmen should be consulted before making any revision and, preferably, should have some part in the planning activities which precede the action.

A thoughtful consideration of these desired characteristics of a compensation plan will lend support to the frequently repeated assertion that no plan is perfect, that each has its points of strength and of weakness. The reason for imperfection is that certain characteristics which seem to be needed in view of the product, the selling task, and the type of salesmen employed are in conflict with other characteristics which also seem necessary. For instance, payment on the

basis of objective evaluations of performance on various tasks which are assigned to salesmen, if carried far, might produce extreme complexity in the plan evolved. Incentive and control are always in a measure of conflict. To attain the right amount of control and supervision over salesmen may strongly suggest a straight salary plan, but such a plan is very likely to reduce the incentive element. It becomes a question of what characteristics are most needed and then, through compromise, of maximizing those characteristics and minimizing others.

COMPENSATION PLANS IN USE

As stated previously, there are a multiplicity of compensation plans, each partaking to a greater or lesser extent of the two parent plans, straight salary and commission. These two are as far apart as the poles in concept as one provides for a fixed, definite compensation, whereas compensation under the other plan could be, and often is, highly variable. Of course, no salary is fixed for an indefinite period. There is periodic review and thus the likelihood of change. Furthermore, under commission there may be a little variability of earnings if demand is relatively steady and the salesman persists in his activities. However, in a commission plan, there is the opportunity for variability by virtue of the nature of the plan. Other plans, called combination plans, are in the in-between area as they differ in the extent of their variable and fixed elements. On the basis of the extent of variability provided for, compensation plans may be classified as follows:

Fixed compensation	Straight salary
Fixed and variable compensation	Salary and commission
	Drawing account and commission
	Salary and bonus
	Salary, commission, and bonus
Variable compensations	Commission
	Commission and bonus
	Bonus

Admittedly, there are many names given to compensation plans which do not appear in this list, among them point systems; task and bonus; salary, task, and bonus; and profit-sharing.[4] But these are only variations of the basic plans listed, which will be explained shortly.

A number of surveys have been made of the prevalence in use of various methods of compensating salesmen. One of the most recent

[4] If total compensation is based on profits, then profit-sharing should be included under variable compensation. Then it is another element in compensation. But usually only a small part of compensation is based on profits, and that part is considered a bonus with a profit base.

was made by the National Industrial Conference Board, Inc. in 1947.[5] This was a study of the plans used by 421 companies, well distributed over heavy equipment, consumers' goods, materials and supplies, and widely distributed geographically. Of the total number of companies included, 36.6 per cent used salary only; 32.3 per cent, salary and bonus; 12.8 per cent, salary and commission; 2.1 per cent, salary, commission and bonus; 15.2 per cent, straight commission, with or without drawing account; 0.7 per cent, commission and bonus; and 0.2 per cent, bonus only. Of 328 companies 13.4 per cent used more than one plan. It will be observed that 83.8 per cent paid salesmen basic salaries either alone or in combination with some incentive plan. Furthermore, it is significant that 47.9 per cent used some combination plan in order to provide incentive for greater effort. Data were presented which indicate that sales trainees are very likely to be paid on a straight salary basis, at least during the time of their apprenticeship.

From the evidence available, there appears to be little relationship between the type of compensation plan used and the variables of size of company, product manufactured or sold, and the type of market cultivated. It should not be inferred from this statement that any plan will work for any company. It suggests, however, that there is little agreement among companies upon the most desirable compensation plan even where a measure of agreement might reasonably be expected. The fact of the matter is that often the selling task, even among companies with roughly similar lines, differs sufficiently to make desirable a variation in the compensation plan used. They may, for instance, use quite dissimilar channels of distribution for their products. Historical differences in companies' operations, the attitudes of executives, and the varying caliber of sales forces also have their effect on compensation plans. Variation in the plans used may likewise suggest that intelligent administration of any plan has more to do with making it acceptable to salesmen and to the company than the nature of the plan itself. The best results can be secured by the selection of a well-conceived plan followed by sound administration. Periodic review and the willingness to experiment will do much toward solving the problems of compensation.

Straight Salary

Of all plans of compensation, this is the least complex. The salesman is paid a certain amount periodically, usually each week or month. There may or may not be an understanding as to how often the salary question will be reviewed, but the value of salesmen to the

[5] National Industrial Conference Board, Inc., *Salesmen's Compensation Plans* (Studies in Personnel Policy, No. 81) (New York, 1947), p. 4.

company changes quickly at times and thus frequent review is needed if payment is to be made in accordance with productivity.

There are many advantages in a straight salary method of compensation. It is definite, easily understood, lacks complexity, and a company's clerical work is reduced to a minimum. The salesman knows the amount of his salary in advance and thus is relieved of worry because of uncertainty over his income. This may create a sense of security and a measure of confidence and assurance which are needed for effective selling. For new recruits, particularly, assurance of at least the amount required for living expenses appears to be necessary if morale is to be maintained. There is no immediate reduction in compensation if sales fall off greatly because of crop failures, decreased activity in certain industries, or other conditions for which the salesman is not responsible. This is a business risk which, under straight salary, is taken by the company. Furthermore, the salesman on straight salary is not likely to be overpaid in times of prosperity and underpaid in times of depression. Largely because the company relieves the salesman of such risks under the straight salary method, turnover in the sales force is not likely to be as high as under other plans which produce greater variability of income from month to month or year to year.

In addition to these advantages, and of much more importance, is the greater control over salesmen afforded by the straight salary plan. Other plans may create clashes of interest between a company and its salesmen, but under straight salary these are minimized if not completely eliminated. Under other plans it may be to a salesman's immediate advantage to do certain things, for instance, to overstock a customer, or to refrain from doing certain things, for instance, missionary work, which might prejudice the company's position. Under straight salary there is less advantage to a salesman in heavy immediate sales. High pressure selling tactics are not so likely to be followed, and, as a result, the customer will not feel that he has been victimized after the salesman leaves. Furthermore, under straight salary, the salesman does not begrudge the customer the time which is necessary to do an effective selling job. He can take the same long-range point of view that the company's executives take, if he is assured that they will not focus all of their attention on sales volume and sales-expense ratios when salaries are adjusted.

Any decisions of management which affect the work of salesmen are likely to be received with less antagonism and carried out more fully under a straight salary plan. Not only may executives wish to induce more work of a missionary character, but also rearrangements in territorial or customer assignments may be thought desirable. Perhaps new and better methods have been evolved which will result in a more efficient use of the salesman's time. Under plans such as straight

commission, which create independence on the part of salesmen, changes such as these are likely to call forth objections, and none too hearty co-operation if they are put into effect. The best way of performing each of the various parts of the selling task is so much more effective than haphazard procedures that a company can not afford to let a compensation plan stand in the way of their adoption. Ultimately, if the new assignments divide the market among salesmen in a more reasonable manner, and if the new selling techniques are more effective than the old, the salesmen as well as the company will benefit. But in the interval while the changes are being made and the salesmen are becoming adjusted to new territories and new selling methods, there may be a decrease in compensation under any plan other than straight salary. Thus the advantage of the straight salary plan is that it permits of active and forceful control by the home office, without disrupting the sales force. To a certain measure, control can be achieved under other plans of compensation and, perhaps, sufficient control in certain instances, but no other plan makes the salesman quite so willing to acquiesce to the decisions of management which affect his activities.

It should now be evident that many of the characteristics listed as desirable ones are embodied in a straight salary plan. But certain ones are not—notably incentive features. Companies frequently report that salesmen under salary do a reasonable amount of work, but that they pass up opportunities which salesmen under incentive schemes would realize upon. The incentive afforded by the knowledge that salaries will be reviewed at some vague time in the future evidently is not as effective as the knowledge that more immediate sales will increase income at the end of the week or month. If the salesman knew definitely that salaries were to be reviewed, and mostly on objective bases, every six months, there might be sufficient incentive to induce maximum activity. This suggests that another weakness of the straight salary plan as administered is that adjustments are not usually made with sufficient frequency. This lack of flexibility in compensation may lead to overpayment of men who are slipping as producers and underpayment of men who are improving their performance.

It is also claimed that the better men are forced to carry the poorer ones under a straight salary plan; that the range of payment is not so wide as under a commission form of payment. There is much evidence to prove this assertion. But perhaps the range under a commission plan is wider than it should be. Of course, it depends upon whether the difference in the volume achieved by salesmen is the result of a difference in their abilities or of a difference in the conditions under which they work.[6] If the best salesmen are really underpaid and the

[6] See compensation plans Nos. 32 and 53 in *Tested Sales Compensation Plans* (New York: McGraw-Hill Book Co., Inc., 1937), pp. 124 and 178.

poor ones overpaid under straight salary, it suggests, not that the plan is necessarily a poor one, but that sales executives are arbitrary and haphazard in the procedure which they follow in making salary adjustments. When salaries are based on what might be termed "a good all-around selling job" and executives do not make objective evaluations of salesmen's performance, hunches and prejudices are too likely to influence a sales executive's judgment and thus salaries.

From a company's point of view, the fact that there is less variability under a straight salary plan may be considered a disadvantage. Salary expense tends to become a fixed expense rather than a variable one. The company takes the entire risk of a decrease in sales volume instead of passing a portion of the risk on to salesmen. In time, there will be downward salary adjustments, but there is no automatic reduction in salesmen's earnings as under commission plans.

Commission Plans

The essential feature of a commission plan is that compensation is directly and immediately related to the performance of the individual salesman. On the basis of a predetermined ratio, or ratios, he is paid in accordance with the results which he can show in sales volume or some other evidences of accomplishment which are subject to measurement. As there is no fixed element involved in payment by commission, the income of the salesman may be subject to any degree of variation between periods. Under certain conditions of product and market, the amount of the variation is not great, but still the exact amount which the salesman will receive cannot be predetermined; therefore, assurance of a certain level of income is less than under a salary plan.

Factors Influencing Rates. The commission plan of compensation may be very simple or highly complex, depending largely upon whether there is a single base or there are multiple bases in use for the determination of the commissions. There may be a single commission rate—that is, the same rate will be applied to all sales regardless of the type of product sold, where, when, or to whom the sales are made. For instance, a company may give its salesmen 5 per cent on all sales, regardless of the circumstances surrounding the sale. This is known as a straight commission. On the other hand, many commission rates may be established based upon different factors, among them the following:

1. *The amount of product sold.* In order to increase incentive, commission rates may be increased as sales volume rises, either gross sales or net sales. It may be a gradual increase with an additional increment of commission at each of a number of levels, for instance, 5 per cent on sales up to $80,000; 5½ per cent if sales reach $80,000; 6 per cent if sales reach $90,000, all applied retroactively. Some incentive

is given if the retroactive feature is not included, but the incentive is much greater if the new rate applies to all sales before as well as after the breaking point.

An additional commission may be given for reaching a quota set by management and, perhaps, additional commission for reaching stipulated levels above quota. At times additional commission is also given for reaching certain proportions of quota, for instance, 75 per cent. If the quotas appear to be reasonable and the additional commission is sufficient, it can provide a strong incentive, particularly toward the end of the period when it may become evident that greater effort will push sales into the higher commission levels. If the quota period is an annual one, there may be little incentive in the earlier months. Some companies offer an opportunity to make greater earnings in shorter periods, quarterly, for instance, in an effort to keep incentive alive.

2. *The types of product sold.* Different commission rates may be established on the various products of a line in order to induce the salesmen to give each the proper amount of attention. For example, higher commission rates may be set on particularly profitable items or on new items being introduced than on those which are firmly established in the market and thus need little by way of strong promotional effort.

3. *Gross or net profit on sales.* An attempt is made, not only to vary commission on the basis of profitability of certain items, but also to determine the gross profit, or possibly the net profit, for the company on the sales of each man and then to pay salaries in direct proportion to the profits made. This plan will be discussed in some detail later.

4. *The territory in which sales are made.* Commission rates may be adjusted to the difficulty of selling in territories of unequal potentiality. In view of their ability, training, and experience two men might deserve the same level of income but if placed in territories of markedly unequal size and potentiality would not be able to secure it unless the commission rates were adjusted to take this fact into account. Commission rates may likewise be adjusted to the expenses necessarily incurred by salesmen in order to cover their territories satisfactorily. This is not necessary unless salesmen are expected to pay their own expenses from commissions, but must be done under such a plan, for travel expenses in particular vary greatly between sales territories.

5. *The type of purchaser.* When sales are made to different classes of purchasers, for instance, to retailers, wholesalers, and directly to large users, different rates may be necessary in order to recognize the varying difficulty of the selling task in each instance. Different commission rates may be set for sales to small accounts and to large accounts.

6. *Credit terms given, collections made.* If salesmen are given authority to vary the terms of payment on goods sold, their performance in securing terms favorable to the company may be used as a basis for additional commission. In one particular instance, involving the sale of roofing to householders, salesmen were given an additional commission of 2 per cent if payments were completed in 30 days, 1½ per cent if completed in 4 months, and 1 per cent if completed in 6 months. When salesmen are entrusted with collections, their commissions may be related to their success in keeping past-due accounts below a certain level, or for limiting credit losses in their territories.

7. *The time at which sales are made.* If a company's business has seasonal characteristics but there are some opportunities for sales in off-season periods, a higher rate of commission may be offered in such periods in an attempt to stabilize sales volume over the years.

8. *Expense reduction.* At times, salesmen are given a commission on the amount by which they reduce their expenses over a certain period below actual expenses incurred in a base period. In one case, they were offered one-fourth of the savings made. While this is not considered a particularly desirable means, in principle, for expense control, still it has been effective over short periods.[7] There are numerous cases on record where salesmen with an incentive of this character have reduced their expenses appreciably and with no apparent harm to sales volume or to company reputation.

9. *Miscellaneous sales activities.* A commission may be offered for performance as evidenced in other ways than by the amount of sales, for instance, number of new customers, number of calls made, displays placed in retail outlets, and other productive activities of like nature. The commission may vary directly with the extent to which these activities have been engaged in, or a certain quota may be set for each and a commission paid when and if the quota is reached.

Much can be said for a commission which is given for the accomplishment of specific tasks. Salesmen are induced to do those things which seem of particular importance to management and, moreover, when the tasks particularly need doing. The compensation involved is given for factors over which the salesman has control and the evaluation is an objective rather than a subjective one.

These bases for variation of the commission rate, while all used to some extent, are used with varying frequency. According to the National Industrial Conference Board, Inc., study previously cited, of 124 companies, 48, or 38.7 per cent, use a constant rate and 76, or 61.3 per cent, use a variable rate based on one or more factors, the most important of which were just listed.[8] The percentages of the companies

[7] See Chapter XXIII, pp. 701–3.

[8] *Salesmen's Compensation Plans*, p. 16.

which use certain factors as a basis for varying rates were as follows: gross sales, 15.9 per cent; net sales, 17.1 per cent; gross profit, 7.3 per cent; net profit, 4.9 per cent; type of product sold, 52.4 per cent; type of customer, 25.6 per cent; type of territory, 13.4 per cent; sales over quota, 14.6 per cent; others, smaller proportions.[9]

For the commission form of payment, just as for straight salary, executive attention to problems of adjustment is needed. It is simply a matter of adjusting commission rates rather than salaries. Presumably review and adjustment of commission rates will be needed less frequently, for change in a salesman's performance is rewarded or penalized directly by the working of the commission plan. But his assignment may be changed, or demand in his territory may shift upward or downward unexpectedly. Either may call for a change in commission rates. When commission bases other than sheer volume of sales are used, executive attention may be needed frequently. The compensation scheme is then being used as a means of control, and control presupposes periodic attention for administrative purposes. For instance, if varying commissions are offered on the different products of a line in order to induce the salesmen to give each the proper attention, then a change in the line, evidence that certain products are not receiving the attention needed, or a reduction or increase in profit on certain items may call for a change in the established rates.

Advantages of a Commission Plan. Some of the advantages of a commission plan have been suggested in the foregoing discussion. It does provide for the maximum of incentive, for the salesman becomes acutely conscious of the need for maintaining effort and the desirability of increasing both the time and the effort used in selling activities. Supposedly, at least, his own self-interest will cause the salesman to use his time both fully and wisely, for otherwise he will suffer immediately through a reduction in earnings. It is often argued that because of high incentive the commission plan is likely to produce the largest volume of sales.

The simple characteristics of the commission plan may be sacrificed, however, in order to secure a greater measure of flexibility. As we have seen, the rates can be varied on any one or more of a number of bases, thereby achieving flexibility, but, unfortunately, complexity as well. In this way also, certain measures of control can be introduced into a commission plan. While rates can be varied for this particular purpose, management should not go too far in this direction, for the possibilities of variation are manifold, and a commission plan which uses too many rates becomes cumbersome to administer and confusing to salesmen.

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[9] *Ibid.*

A ready means of adjustment to changes in productivity is a salient feature of a commission plan. Salary adjustments are needed less frequently when commission is used; that is, commission rates need to be changed less frequently than straight salaries need to be revised. Also, commission plans eliminate many of the disputes which arise when straight salaries are revised downward. Salary reductions run the whole gamut from increases which are gladly given and richly deserved to reductions which are as greatly deserved but not welcomed. Perhaps decreased earnings are accepted with better grace when they arise from reduced sales under a commission plan than from what may appear to be an arbitrary decision of management.

Finally, and most importantly, a commission plan of payment probably attracts and retains a superior type of salesman. Many sales managers also believe that it has greater general acceptance by salesmen, that they like the feeling of independence and rewards on the basis of their own productivity which it provides. While undoubtedly some individuals would like a greater measure of assurance than is given under commission plans, still people who react well to incentives often will sacrifice assurance of income in order to secure a greater opportunity for increased income. If salesmen are satisfied with a commission plan and certain disadvantages common to such plans are not present, management may prefer it because compensation then constitutes a variable rather than a fixed cost. When sales volume is reduced, the cost of salesmen's compensation is reduced likewise. This is no mean advantage, for it aids budgeting and protects profits as business conditions deteriorate.

Disadvantages of a Commission Plan. The disadvantages of commission plans are in part the advantages of straight salary, and, as these have been developed at length, additional discussion can be limited. Where demand is irregular, there is little assurance of steady income and this may have an unfortunate effect on salesmen. The risk of reduced sales is partly shifted to salesmen, and they are less able to bear it than the company. Even when the salesman is exerting the maximum of effort, his salary may be greatly reduced by factors over which he has no control. This is productive of turnover among salesmen which is costly, and of overpayment in times of prosperity and underpayment when demand is slack. There is even some indication that customers do not like to deal with salesmen who are paid on a commission basis. Surely there is more likelihood of pressure selling which customers may resent. But more important still, commission plans lack an essential characteristic which was listed, namely, encouragement to adhere to managerial policy both as regards objectives and methods of procedure. As one man put it by way of explanation after shifting from commission to straight salary plus expense, "Our men now go where we want them to go; do what we want them

to do; and instead of order grabbers, they are doing a real territory-building and merchandising job for us, which in the end makes for better sales distribution."[10]

Company interest and salesmen's interest do not harmonize as well as under straight salary. Perhaps they should harmonize if the salesman contemplates a long period of employment with a company and, perhaps, in the same sales territory. But immediate increases in income seem much more important than long-range objectives, and he is likely to be avaricious and thus to overstock customers, persuade them to buy more costly products than they need, be too lenient on credit, and be unwilling to give customers sufficient time for adequate service. Furthermore, he may not be willing to do missionary work, aid in the training of younger men, gather and transmit back to the home office market information which is needed, send in reports regularly, and other positive acts of like character which management thinks necessary.

Some sales managers insist that sufficient control can be retained even under a commission plan. They recognize that a commission plan is inimical to control, that salesmen are not likely to be so cooperative as under straight salaries, but they assert that the control problem can be solved by persistent effort. Varying the rates of commission on the different bases suggested is one control device which may be used. Salesmen's reports may be demanded, even though they might not be prepared so willingly as under straight salary. Duties of the salesman, itineraries to be followed, and selling procedures may be rigidly defined and adherence may be insisted upon by management. But when a salesman's independence of action is so greatly circumscribed, there may be some question whether the incentive features of a commission plan are being allowed to perform their proper function. Furthermore, an incentive plan restricted by rigid controls is likely to be productive of continual irritations. If a large measure of control is needed in order to secure effective selling, that control should be secured by a fixed salary or by a combination plan.

Another difficulty under commission plans is that of dividing commissions when two or more salesmen have some equity in a sale. Questions arise if territories are not clearly bounded or if a product is bought in one salesman's territory but for use in another's territory. At times it is necessary to bring in an older salesman or an expert on certain products in order to close a sale. Then the question arises as to who should be given credit and how much. Companies frequently find it necessary to set up standards for use in such cases, so that salesmen will know in advance just what to expect. Thus disputes over commissions which can become very heated are, at least in part, overcome.

[10] *Tested Sales Compensation Plans* (New York: McGraw-Hill Book Company, Inc., 1937), p. 132.

Unless commission rates are established with a great deal of care and forethought, they can produce highly inequitable results. It is a question which plan—commission or straight salary—is more likely to have these results. But it is true that volume of sales is more likely to be the sole determinant of compensation under a commission than under a salary plan, and volume of sales in any one period is not conclusive evidence of a salesman's value to his company. Furthermore, unless a company recognizes differences in the potentialities for sales as between territories, under a nonvarying commission rate, inequitable salaries are bound to result.

Sliding scales, with increasing commission rates for higher sales volume, likewise do not produce an equitable result, unless each man has equal opportunity to get into the higher commission brackets. Thus it appears that a good case can be made for the contention that the commission plan is not, as commonly thought, more productive of an equitable relative compensation than straight salary. At least, any categorical statement on this point should be challenged, partly because the answer depends so much on the administration of the plans.

Limitation on Earnings. Another problem provoked by a commission plan, but avoided by straight salary, is the one of limitation on earnings. This problem was particularly prevalent during World War II when sales were made, in many cases, with little or no effort. Suppose, for instance, that a company had an agreement with a salesman that he would receive a commission on all sales in his territory whether he took the orders or whether they came directly to the company. Suppose, further, that because of war or other unusual conditions, tremendous orders were received from his territory. Such orders may have been influenced little if any by the salesman. They were the result of factors beyond his control; still, by agreement, he was entitled to receive a commission on them.

Situations such as this have prompted many companies to place ceilings on the total of commissions which salesmen may earn. The reasons advanced are those of imbalance in the whole salary scale. Certain salesmen who happen to be particularly fortunate, might get much higher compensation than their supervisors or other salesmen who were equally deserving but less fortunate. Unless it could be said with great assurance that the salesman was instrumental in getting large, unexpected orders arising out of fortuitous circumstances, it is doubtful whether he should receive a commission, at least full commission, upon them. Furthermore, it is doubtful if a maximum limit to earnings through commissions, if set at a point considerably higher than any amount reasonably to be expected, would lessen incentive and it might prevent overpaying salesmen in years when business is unusually good.

Nevertheless, there is a feeling among sales managers that compen-

sation should not be limited. Of 62 companies which used a straight commission plan of compensation, 54, or 87.1 per cent, were against a limitation on earnings.[11] Many companies may have been included in the sample, such as those which handle foods, drugs, and paper products, which would not have widely fluctuating sales even in wartime. When the question was asked, "If, due to conditions beyond a salesman's control, sales in his territory should be tremendously increased, would you adjust his commission earnings?" 49 companies out of 121, or 40.5 per cent, said "yes" while 72, or 59.5 per cent, said "no."[12] Moreover, the *Sales Manager's Creed* says, "Earnings of commission or bonus salesmen shall be unlimited, unless otherwise specified at the time of their employment. Should basic changes in a business justify modifying this policy, all salesmen affected shall be advised of the fact a reasonable time prior to establishing such ceilings as become necessary."[13]

This statement suggests how, as a matter of policy, limitations on salary by commission may well be handled. First, it may be wise to have a clause in the salesman's contract which states that in times of national emergency all compensation arrangements will be subject to review and alteration. Second, an agreement that the matter of commission allowed should be subject to negotiation in those cases in which sales are made at the home office might be a wise precautionary one at the time of employment. Third, in order to preserve incentive, it might be wise to consider not an absolute maximum but a reduction in commission rates after a certain salary level has been reached. Some would argue that this is wrong in principle, that commission rates should go up, not down, with increased sales volume. In general, a good case can be made for this assertion, but the case is greatly weakened when a large sales volume is secured not because of the salesman's industry and ability, but because of fortuitous circumstances beyond his control. Fourth, simply as a matter of good personnel relations, no change in commission rates or limitations on earnings should be made without reasonable advance notice. One or more of these precautionary steps may prevent a situation arising in which salaries under a commission plan of compensation increase beyond all reasonable levels.

Compensation through Bonus

A third element which may be included in compensation is a bonus. Unlike salary and commission, it is seldom if ever used as a sole means for compensation. By exact definition, a bonus is something given

[11] *Salesmen's Compensation Plans*, p. 18.
[12] *Ibid.*, p. 19.
[13] National Sales Executives, *Sales Manager's Creed* (New York, 1950).

in addition to what is ordinarily received, or strictly due to the recipient under a definite agreement. If one adheres strictly to this definition, the term "bonus" could not be used if the extra compensation offered was to vary on a definite base and if it was a matter of a formal agreement. For instance, a company may offer $10 in addition to regular compensation for securing a new dealer whose original order amounts to $100 or more. Here there is a definite base and a formal agreement. In contrast, a company may give its salesmen an end-of-the-year bonus if operations have been particularly profitable. Through precedent, salesmen or other employees may expect this bonus, but it is not based upon a formal agreement. The company is under no obligation to make such payments and the amount to be given is indeterminate. This, strictly speaking, is a true bonus whereas the other is not. In business usage, however, the term "bonus" is not confined to its strict definition. Any additional compensation which is not anticipated, or which may not be received in the ordinary course of events is called a bonus. Usually it does not vary directly with sales volume as does the commission form of compensation.

In order to clarify the distinction between commission and bonus, a particular illustration may be helpful. Suppose that salesman has a quota of $80,000 and that he receives a 5 per cent commission on sales until he reaches his quota. Then the commission rate is increased to 5½ per cent, applied retroactively. In fact, he receives an additional compensation of $400 in commissions on sales already made and from that time forward 5½ per cent on all sales. Should this amount of $400 be termed a commission or a bonus? In actual practice, it may be called either. As it is the outgrowth of a previous agreement and as it is computed through the application of a percentage rate applied to a sales volume figure—that is, a quantitative evidence of performance —it should be termed commission. In contrast, if salesmen were told by management that $100 would be added to the compensation of any man who made his quota, this award would probably be termed a bonus in actual practice although it is not a bonus under the strict definition of the term. If the award was given although there had been no prior commitment to do so, it would be a bonus in the true sense of the word.

Additional compensation for any of the accomplishments previously discussed under commission plans may be termed "bonus." When they are paid in lump sum or not directly or porportionately related in amount to quantitative evidences of performance they are more likely to be called "bonuses." In one study sales over quota, profitable line sales, expense economy, profit on sales, sales volume, length of service, new accounts, goodwill effort, and many other factors were shown as bases for the computation of bonus. In any particular instance, one of these factors may be handled in such a man-

ner as to constitute a true bonus. However, if there is to be strong incentive to greater effort on the part of the salesmen a commitment must be made by management that additional compensation will be forthcoming under certain stipulated conditions, and there must be a reasonable possibility of meeting those conditions on the part of salesmen. Moreover, there is greater incentive if the additional compensation given is at least roughly in proportion to the effort exerted. The nearer the additional compensation is in the nature of a commission and the less in the nature of a bonus, the greater the incentive will be. Furthermore, the compensation will probably be more equitable, for commissions are more likely to be based upon quantitative evidences of performance than bonuses.

Bonus payments of the genuine variety are usually associated in some manner with profits. Many of them are the familiar year-end or Christmas bonuses, but more formal plans of profit-sharing are not uncommon. They may be either individual or group bonus plans. The group plans are usually based upon combined sales volume in a branch or district office. It is expected that teamwork will be developed and that some of the undesirable effects of too great individual incentive will be overcome. Moreover, if salesmen realize that a bonus may be forthcoming based on profits, either an individual bonus or a group bonus, there is an incentive to get sales volume in high-profit lines and to keep expense to a reasonable minimum. In one particular case, it has been company policy to set aside 30 per cent of profits each year for bonus payments in which salesmen participate. Thus they know the likelihood of year-end bonus payments and they are actuated to work in such a way that profits are maximized.

When salesmen are allowed to vary price, a bonus such as this may provide the brake needed to limit price reductions. If salesmen are paid on a commission plan or if salary adjustments under straight salary plans are based largely on sales volume, authority to vary price cannot be given with impunity. There is too much incentive for the salesman to lower the price unduly in order to make the sale. However, if he has an interest in the profit on a sale, he is likely to exercise somewhat more discretion in negotiation over prices. In this connection, one company reported that compensation based upon profits relieved pressure from the salesmen on the company for price concessions and reductions.[14]

Distribution of Bonus Funds. When a certain amount of profits is set aside for distribution as a bonus, the problem of how to distribute it among the various members of a group arises. If it has been set up as a group-bonus plan initially, all members of the group must

[14] See Adon H. Brownell, "Profit-Sharing with Salesmen Cuts Sales Costs and Increases Volume," *Sales Management*, January 15, 1940, p. 25.

participate, but not necessarily equally. At times all salesmen or, perhaps, only those of senior rank are given a like amount.

While this plan may avoid dissatisfaction, it does not give bonus in relation to the contribution of each man to the company's success. It may be given in proportion to compensation determined in other ways or base salary. Here again, dissatisfaction may be avoided, but on the contrary it may lead the salesman to question further whether the methods of determining regular compensation produce equitable results. In other words, bonus has not been used as a means of adjusting compensation at the end of a period in view of relative performance during the period. At times a bonus is used for this latter purpose. Executives with the year behind them will consider all the evidence available and attempt to determine which men, in view of their performance, are most deserving of additional compensation and will then allot bonuses in varying amounts. This is ticklish procedure, and some people will very likely feel that they have been dealt with unfairly. Still it rests on the firm basis that hindsight is much better than foresight. The difficulty has been resolved by setting aside a certain portion of the bonus funds available for special awards to those who have been especially effective during the previous year and distributing the balance, usually by far the greater part, on the basis of regular compensation.

Compensation Based on Profits

Compensation according to the profits achieved on the sales in a salesman's territory is a most attractive concept. An executive may reason that a salesman is given responsibility for a territory, he makes a certain volume of sales, on these sales so many dollars of profit are made, and the salesman, being responsible, should therefore be paid according to the amount of that profit. This reasoning, however, is based on a false premise—that the salesman is given *full* responsibility. He may be in certain cases, but usually he is given only partial responsibility, and thus, if compensation is based entirely on profits, he is paid on the basis of factors over which he has little if any control.

In a manufacturing concern, ineffective production would have a direct bearing on a salesman's earnings. In a wholesaling concern, faulty purchasing would have a like effect. The salesman might not be given authority over the amount of advertising and sales promotion which was done in his territory. On the other hand, he may have some authority over prices, terms of payment, and credit; he may have some voice in decisions on sales promotion; he may directly control all personal solicitation; and he may operate in such a manner that the need for home-office selling expenses is minimized. Nevertheless, the

conclusion that compensation based on profits is questionable procedure seems justified, particularly so if there is not a large measure of stability in the profits achieved in all territories.

Compensation based on profits has likewise caused administrative difficulties. Salesmen are likely to agree with the plan in principle, but they are loath to accept the statements of management as to the profit made on given items or, perhaps, over certain periods. Management may not wish to divulge such information or to allow salesmen access to the records, in case they are dissatisfied. Most salesmen are not trained in accounting and would find cost computations very complex even if they were allowed to see the records. In order to overcome some of these difficulties, certain companies have retained the plan but have figured profit on margin data which presumably had some relation to actual cost but was fictitious and was known to be so by salesmen. Under a sales branch distribution system, the cost at which the parent company bills the branch may be used. Then, just as in a wholesaling business, the cost problem becomes more simple, and payment according to profit more easily administered. With a small group of better-than-average salesmen, the administrative problem can be handled, and a reasonably good case can be made for at least a bonus on the basis of profits.

Combination Plans

The various components which may appear in a compensation plan have now been considered at some length. They are straight salary, commission, bonus, and profit-sharing, although the latter is infrequently found in plans other than as a bonus. These may be combined in various and sundry ways in order to produce desired effects on selling activities. By so doing, other things may be combined, notably fixed and variable elements in compensation. Through combinations, a company is able to give varying degrees of incentive and assurance to salesmen, to exert varying degrees of pressure, to exercise more or less control and supervision, and to take, or to make salesmen take, a greater or lesser risk. These factors also might reasonably be thought of as under combination in compensation plans. With these ideas in mind, various combination plans will be characterized briefly from the point of view of company objectives.

Salary and Commission. Since salary and commission, when used individually, have points both of weakness and of strength, they are often combined in the hope that the good points of each will be retained and the points of weakness will be eliminated, or at least minimized. The salesman is given a salary or drawing account. The latter is actually a salary if it is not charged to the salesman and treated as an account receivable with earned commissions as the credit item. The

amount of salary or drawing account under this plan will be appreciably less than expected total earnings. Still it is usually enough to eliminate worry over financial matters on the part of the salesman, too great pressure on customers, and other attitudes or acts which are prejudicial to effective selling work and which result from insecurity. Furthermore, the salary element in compensation allows for greater control over salesmen's activities than a straight commission plan. An incentive is provided by a commission on sales or, perhaps, multiple incentives by varying the commission on one or more of the different bases previously suggested. In this manner, also, a means for control may be inserted into the plan.

The commission element will give the salesman immediate reward for increased productive effort. To some men, this is much more in accordance with their desires than salary adjustments at infrequent intervals. Of course, in any combination plan which includes fixed and variable elements, some measure of incentive on one side and of assurance and control on the other must be sacrificed in order to include both, and supposedly the extent to which they are included varies directly with the amount of the salary in relation to commission in total earnings.

Salary and Bonus. This plan presents another combination of fixed and variable elements in compensation. The fixed element, salary, is likely to be much higher than when given in combination with commission. It is thought of as *the* compensation, while the bonus is something in addition. Although the amount of the bonus as a proportion of the salesman's total earnings will vary greatly under this plan, it is not likely to be over 25 per cent in normal times and usually is substantially less. In contrast, under salary and commission, the commission part of the total may be equal to the salary part. Bonus may be given on one or more of the bases previously discussed in accordance with the objectives which management wishes to attain.

This plan has all of the virtues of the straight salary plan and, in addition, something by way of incentive to do particular things which management believes to be important. If this plan is properly administered, it will probably give greater control than any other plan. Added to that which is the direct outgrowth of straight salary is the control given through rewards for attainment along particular lines, frequently over periods of a few months. The company is not only in a position to demand adherence to managerial policies and accepted procedures, but also is in a position to utilize financial persuasion, which on particular objectives may effectively obtain co-operation. Often the additional compensation is not a true bonus, but it is so termed by management.

In comparison with commission plans, incentive, though present, is more limited. For example, a Christmas bonus which a salesman may

or may not get is not likely to influence his work throughout the year. If there is to be incentive, there must be a reasonable degree of certainty that results will be attained and that financial reward will be forthcoming. Furthermore, the incentive will be limited, for the rewards for attainment are less under bonus plans. Still there is little evidence that the incentive given varies directly with the extent to which earnings are affected. Incentives which are given and later withdrawn, which are varied from time to time, which are specifically directed at one particular thing, for instance, first orders from new customers, may have surprisingly good results even though earnings are affected but little.

Salary, Commission, and Bonus. This plan is one which combines one fixed and two variable elements in compensation which are somewhat confused in practice. The salary element gives the salesman assurance. He is relieved of a feeling of insecurity and, as a result, he may be more effective in his work. Continuous incentive has been provided by commissions on sales. Through offers of additional commissions or bonuses, attention may be directed to expense reduction, certain parts of the selling task which are not immediately productive of sales volume, the terms given for payment, profit on sales, and certain levels of sales volume which may be associated with quotas. Through such means control is secured which would not be present to a like extent under straight commission. They augment the control provided by the salary element in the plan. In addition, there may be something by way of a true bonus. If the company's management has become addicted to the use of the bonus, and this fact is recognized by salesmen, it may have a salutary effect on their work. Incentive is provided, perhaps, to do a good over-all sales job, with relatively more attention to those activities which assure the future well-being of the company and less attention to those which have immediate personal advantage.

Drawing Account and Commission. This plan is included in our discussion as, in practice, it bridges the gap between an assured salary and a straight commission basis. A drawing account is one of two things—a salary or prepaid commissions. If a drawing account is given against future commissions, but the salesman is under no obligation to his company if commissions fail to total the amount given, then in effect it becomes a straight salary. If on the contrary, the drawing account is simply an advance to salesmen, and there is a possibility of deficits accumulating for which the salesman is responsible to the company, just as any other debtor, then the salesman is actually on a commission basis. Frequently under this plan, when business conditions are becoming progressively worse, deficits do accumulate against salesmen which they are unable to pay. At times these deficits are written off by the company. Under such a condition, the drawing

accounts were in effect straight salaries at the time at which they were given. A drawing account gives a salesman funds to use and therefore he is not under so great an immediate necessity of making commissions through sales. It may or may not represent actual earnings on his part. This depends upon the plan which the company follows, and the final adjustment of deficits if they accumulate.

Commission and Bonus. This plan is a combination of two variable elements in compensation and that only. No assurance of earnings is given the salesman other than that which is the outgrowth of stability in demand. Commissions on sales forms the greater part of compensation, just as salary does in salary and bonus. The plan achieves incentive through the commission offered on sales volume as such. It may be maximized, and in part controlled, by basing additional earnings on the attainment of specified goals in sales volume or other evidences of performance. Offers of additional commissions or bonuses may take the salesman's mind away from sheer volume as the only objective to be achieved. Any one of the bases for variation from a straight, one-rate commission structure can be used either for additional commission payments or for bonuses. For instance, profit-sharing may withhold sales to poor credit risks or the indiscriminate use of permitted price reductions in order to make sales.

Commission and bonus as used is, in fact, very largely commission on varying bases. True bonus is not likely to be combined with a commission plan of compensation. It is more likely to be combined with a salary plan. Something in addition to salary, but not the outgrowth of a contractual agreement, may be needed as a retroactive recognition of excellent performance. In a sense, a commission plan of compensation provides for this by its very nature, whereas a salary plan does not. Moreover, salesmen under commission plans are often not as close to management as under a salary plan, nor do they feel the same ties. They are more independent but still subject to control by varying the commission bases. While true bonus may be given in recognition of superior performance, any additional compensation is more likely to be related directly to quantitative evidences of performance.

Point Systems. Another plan which may deserve a brief discussion is the so-called point system of compensation.[15] Basically, it is not a plan different from those previously discussed. Rather it is one or other of those plans modified as to the procedure followed in the determination or breakdown of the sales task, and the units in which

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[15] For a discussion of the point system of compensation, see C. E. Griffin, *Sales Quota Systems* (Michigan Business Studies, Vol. I, No. 5) (Ann Arbor: University of Michigan, 1928), pp. 12–17; also, William Sample, *The Point System of Compensation* (Marketing Executives Series, No. 41) New York: American Management Association, 1927).

the task is stated. It may be any one of the combination plans, but usually it is salary with commission, bonus, or both. For instance, a salesman may be given $200 per month and a quota in points. It differs from the usual quota systems in that it takes into account indications of the salesman's performance other than the total sales volume. Points may be awarded in differing amounts for sales of various products, roughly in proportion to the difficulties of selling. When the point quota is reached, the salesman may be given additional compensation either in a lump sum or as a commission on the sales made. This is actually a commission for reaching a certain quota. Perhaps the commission will be increased as further point totals are reached. Then it becomes a sliding scale of commissions above a certain base with increases at designated points.

Points may be awarded for accomplishment on many parts of the sales task. Among these are number of calls, collections, new dealers secured, reports for management, and terms given for payment. Points may also be awarded for more intangible things, such as interest in work, co-operativeness, and constructive suggestions. A negative feature may be included through deductions in points because of complaints from customers, lack of promptness in sending in reports, returns of merchandise, deterioration of merchandise in dealers' hands, or other factors which give evidence that the salesman is failing to perform his various functions properly. Thus it is evident that these point systems may become very complicated and for that reason objectionable.

When the bases for awarding or deducting points are so intangible as some of those mentioned, it becomes very difficult for management to say with a reasonable degree of assurance just what performance has been and express that performance in quantitative terms. When evaluation must be subjective instead of objective, for example, when a sales manager attempts to rate a group of men precisely on the basis of interest or willingness to co-operate, he not only has difficulty in doing so, but also the results are likely to be seriously questioned by those rated and thus productive of ill will and resentment. Perhaps a like attitude may be engendered by the inclusion of negative features in compensation plans. Deductions in points through evidence of a lack of effective performance are infrequently received with good grace by salesmen. There is always the possibility that customer complaints and other such things are not the fault of the salesman. If there is any doubt, a penalty through reduction in compensation would surely cause resentment.

Still, it should be recognized that no new problem is created, for every sales manager must attempt to evaluate the performance of salesmen both in its affirmative and negative aspects. There must be some such scale of values in his mind when hiring, discharging, pro-

moting, and rewarding salesmen. A point system merely makes it necessary for him to set forth those values in more definite terms than he is in the habit of using. This necessity, in itself, forces attention on certain parts of the sales task which, if properly handled, should affect compensation although they are not usually taken into consideration. The sales manager should have a well-rounded picture of the salesman's activities and he should attempt to let performance in each of these affect compensation, but whether they should be formally incorporated into the compensation plan is another matter. To a greater extent than others this is what the point system attempts to do. Although its merits are acknowledged, the number of performance factors which are directly recognized in the plan should be relatively few and subject to quantitative measurement. Otherwise the defects in the plan will come to the fore and soon outweigh the desirable characteristics.

Use of More than One Plan

The fact that many companies use more than one compensation plan should not be surprising in view of the preceding discussion. If all companies produced but one narrow class of products and if all salesmen were given exactly the same responsibility, then one compensation plan would be expected. But this situation is greatly divorced from reality in many instances. Numerous products may be handled by a company which are sold to quite different markets under quite different conditions of sale. In this way, one company may approximate the sales activities of several others. Even with a single product sold to the same market, salesmen may be given different responsibilities—for instance, there may be a group of missionary salesmen and a group of so-called regular salesmen. The responsibility of the first group is for promotional work with dealers or other buyers whereas that of the second group is the detail of regular calls and the taking of orders. For the missionary salesmen, there is little possibility of payment by commission for the work done has no immediate expression in sales. The efforts of the salesmen are directed at long-range objectives. Accomplishment cannot be measured easily and subjective evaluations must largely be relied upon to determine compensation. The plan used is likely to be straight salary or salary with bonus. In contrast, the regular salesmen may be paid on a commission basis or on any one of the combination plans. To a certain extent, at least, their accomplishment appears in sales volume and other data. Moreover, their work is subject to control through definite routing, the expense money allowed, and in other ways which make control through compensation as such less needed.

Another reason for the use of more than one plan is length of ten-

ure. It is not unusual for a company to pay beginning salesmen a straight salary and gradually ease them into commission selling. Under a "sink-or-swim" policy, new men may be placed on commission and older men rewarded by straight salary. At times the plan is adapted to the particular individual. Some men who are prone to worry need assurance of income while others work most effectively under a high degree of incentive. With a small sales force, it may be possible to tailor the plan to suit individual temperaments; but with larger groups, there must be some uniformity in the plan used.

Adaptation of Plans to Specific Situations

Little attempt has been made in the preceding discussion of compensation plans to link any particular one to certain types of product, market, enterprise, or salesmen. An attempt to do so would not be particularly fruitful. This does not in the least deny the possibility of selecting a plan which would most effectively meet a company's needs, if all facts of a given situation were known. However, something by way of generalization on the adaptability of compensation plans to products is possible despite the complexities involved.

Any form of missionary selling or developmental work of a sales character is likely to be compensated through a straight salary, perhaps with bonus. There are few objective measures of performance on which to base compensation, as results do not appear immediately. It is an attack of an educational nature with long-range objectives in mind. The sale of producers' goods is also likely to be compensated by salary, again with the possibility of a combination with commission or bonus. In a sense it is missionary work, for sales follow after long negotiation. Sales are very subject to seasonal and cyclical variations, and thus a salesman's earnings if on other than a salary plan would likewise be highly variable. Technical service is needed which the salesman might be loath to give if he was paid on a commission basis. Salesmen who solicit business from wholesalers are likely to be paid in large part by salary. Their work is partly of a missionary character, contacts are relatively infrequent, and many orders are sent in directly to the office rather than being given at the time of sales calls. Payment on a commission basis might give highly inequitable compensation relatively, since results may depend so largely on the potentialities of a territory in which a given salesman is working.

In contrast, the routine selling of goods, such as grocery or drug products to retailers—goods which have fairly stable demand characteristics—is more likely to be compensated for through commission or combination plans. The sale of supplies to institutions calls for much the same treatment. The nature of the demand, if coupled with reasonable effort on the part of the salesman, will furnish assurance

of income. Incentive is needed and a measure of control can be attained in other ways, for instance, through routing, reports, and supervision. There is the possibility of directing the effort of salesmen into the right channels through varying commission on the basis of product, purchaser, territory, amount, or time at which sold.

One further general situation which lends itself to a commission plan of compensation calls for comment. It is best illustrated by the sale of insurance. In the sale of insurance, although the reputation and size of a company is important, still the volume of sales depends very largely on the individual salesman's efforts. The contribution of the salesman is much greater, and the contribution of the company much smaller, than in the sale of many products and services. Furthermore, at least in the past, the market has been thought to be almost indefinitely expansible and thus to a degree all territories were of equal immediate potentiality. Therefore, it was considered that all salesmen had equal opportunity for sales and that a commission plan of compensation was thus justifiable. It has persisted as the usual method of compensation although deviations from it, particularly for beginners, are not unusual. Other situations which combine these two features are also adapted to the use of commission plans. At least two objections to their use are not present if the contribution of the company to the work of selling in different territories and the potentiality of territories do not vary.

COMPENSATION AND EXPENSE

It is not unusual for a company to combine compensation and traveling expenses in a total sum which the salesman gets periodically. Or the sum may be divided arbitrarily with little forethought as to how much is needed for each purpose. One company, for example, paid its salesmen $350 per month as salary and the same amount designated as expense money. In instances such as this, it is freely admitted that the salesman may retain some part of the expense money as additional salary but, as no expense reporting is required, the extent to which this is done is unknown by sales executives. Furthermore, the extent to which it can be done varies as the territories of the salesmen differ in size and thus in the need for travel. This brings about a difference in compensation which is in no way connected with the salesmen's efforts or abilities. Even when estimates of the need for expense are made and the amount estimated is added to the salary of the salesman, there is no evidence that it is actually used for the purpose intended, unless expense reports are required. Immediately, at least, the salesman forfeits salary, if he assumes expense. This may lead to inadequate market coverage and penurious habits which reflect on company prestige. In the long run, a salesman may not better his position with his

company by maximizing salary through minimizing expense, but when the issue is confused by paying the two as a lump sum without later accounting for the expense assumed, there is always the incentive to do so. This constitutes a compelling argument for keeping the two separate and distinct.

The desirability of keeping salesmen's compensation and expenses allowances separate and distinct has come to be recognized in recent years. They are different in nature and combining them may bring confusion, unfortunate habits on the part of salesmen, and inequity in compensation. The *Sales Manager's Creed* of the National Sales Executives says, "A sharp distinction shall be drawn between salesmen's earnings and expense allowance, and any system which affords salesmen either a substantial profit or loss on expense accounts shall be corrected."[16] Effective control of salesmen usually necessitates such a policy.

Under certain conditions, however, there may be justification for this practice of combining compensation and traveling expenses. It is in line with a completely decentralized system where little if any control and supervision is exercised by the home office. New companies may hire salesmen to take charge of specific territories, make them entirely responsible for sales, and give them a commission to cover expenses as well as compensation. In effect, these men are in business for themselves. They are not salesmen in the usual sense, but independent agents for the company. They are judged largely by the volume of sales which they are able to secure. Whether such a policy is a wise one will not be debated here. It is only necessary in this connection to point out that a combination of compensation and expense may be reasonable under such a policy.

If there is little if any difference in the expenses necessarily assumed by salesmen or if expense is a minor item in relation to compensation, there is more reason for combining the two in one payment. For instance, if a group of salesmen are working out of a city branch office but within an area of fifty miles or thereabouts in any direction from the city there is little expense other than mileage, and even this may be paid with compensation, and reasonably so, if all salesmen have to travel about the same distances. There is little likelihood that the salesman will assume too little expense under such circumstances, particularly if his activities are watched with some care by the branch manager.

Compensation of Supervisors and Branch Managers

The problems involved in the compensation of branch managers and other sales supervisors do not differ materially from those previ-

[16] *Sales Manager's Creed.*

ously discussed. For compensation of people in the lower ranges of supervisory positions, this is particularly true. Some supervisors spend much of their time in actual selling. But the gradations of authority and responsibility given under the title of branch manager or supervisor are very wide indeed, and even more so if we include zone or division managers. When the authority and responsibility are great, the forms which compensation takes may show a divergence from the usual ones. It becomes executive compensation with bonus on sales volume or on profits featured.[17] The usual determinants such as the need for control, assurance, and incentive are of little moment in the compensation of sales executives. They are likely to give their best efforts in the interests of the company without special incentives, but they may demand extra compensation when excellent operating results have been attained. In other words, their compensation is likely to be adjusted to the operating results of the business as a whole. They may share in a general bonus plan for all company executives.[18]

Most zone, district, and branch managers, or field managers as they are sometimes called, are in an intermediate position. They are subject to supervision and control by home-office sales executives but act in similar capacity to people in the field. They need assurance of income but less than supervisors and line salesmen. Much of their work is of a supervisory and promotional character which may not immediately affect sales volume, therefore a straight salary plan is indicated with something additional, perhaps, by way of incentive payment.[19] According to one study of branch managers' compensation, only 7 companies out of a total of 80 failed to pay their branch managers' a straight salary.[20] Approximately 80 per cent paid something in addition, however. About 20 per cent had profit-sharing schemes, and a like percentage paid a commission to branch managers on their own sales or on the total sales in their branch territories. The latter was much more prevalent than the former.

Many of the weaknesses of profit-sharing schemes previously discussed do not apply with equal force to compensation of field managers. In contrast, many of the advantages apply even more fully. The

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[17] See G. R. Hawes, "Recent Trends in Compensating Sales Executives," *Personnel*, Vol. XIV, No. 5, pp. 168–71.

[18] A thorough discussion of the compensation of major sales executives, or junior executives who are not actively engaged in supervisory work, is not included in the scope of this text. Some of the references given at the end of the chapter will be helpful if the student wishes to investigate the subject further; particularly, National Industrial Conference Board, Inc., *Sales Organization and the Compensation of Sales Executives* (Studies in Personnel Policy, No. 28) (New York, 1948), p. 25. In this study it was stated that 38 per cent of first line territorial executives in 114 companies received bonuses in 1946 in addition to straight salaries.

[19] *Ibid.*

[20] "Eighty Leading Companies Report Policies on Branch Managers' Compensation," *Sales Management*, October 10, 1938, p. 30.

field manager is given more authority than the salesman, and responsibility for results in terms of profit goes with it. Thus it is more reasonable that he should be paid in conformance with those results. Administrative difficulties involved in profit sharing are greatly minimized. Even if the computations in determining profits are somewhat complex, people of their caliber should have little difficulty in understanding them. The very fact that there are few field managers in comparison with the number of salesmen lessens the difficulty of administration. Furthermore, the former are more likely to be in the confidence of the company, and thus there is less fear of divulging confidential information regarding profits.

Participation in profits brings into accord the interests of the field manager and those of the company. He becomes profit-minded as well as sales-minded. He has the incentive to see that the salesmen under his direction do an effective selling job because sales mean profits. But there is likewise a restraining influence against too great selling costs for they reduce profits. When branch managers are given a share in profits, "there is far less difficulty at the home office in maintaining a price structure. Under former plans in which profit-sharing was not a factor, branch managers were continually putting headquarters under fire to reduce prices. Since, under the present remuneration system, it is to their interest to protect profits, that sort of bickering has been practically eliminated."[21] Clashes of interest, such as are here suggested, would be likely to arise if the branch manager was paid in part through commission sales, but not if his additional compensation was tied to profits.

Employee Benefits—Pensions, Insurance

There is some evidence which indicates that employee benefits in the past have not been accorded in like measure to salesmen as to other groups in our economy. Salesmen have infrequently been included in executive pension or insurance schemes, nor have they always been included in pension plans for workers. In recent years, this lack of participation has been recognized and pension plans specifically designed for sales groups are now not uncommon. In view of the present demand for security by all groups, there will probably be many more of them established in the near future. Some indication of their prevalence was given in a survey made by the Boston Sales Managers' Club in 1947.[22] Of 200 questionnaires sent out, 90 companies replied and furnished information. Of this number 59 per cent had pension plans which included salesmen and, of the companies which

[21] *Ibid.*, p. 36.

[22] "Why Salesmen's Pensions Are Gaining in Popularity," *Sales Management*, June 1, 1947, p. 97.

did not have such plans, 38 per cent had them under consideration. In another study of 415 companies, 56.6 per cent had a pension plan for sales personnel.[23]

A good case can be made for the contention that some provision for health and accident insurance and for income in later, nonproductive years is particularly necessary in the case of salesmen. The need has been dramatized recently by the play, "The Death of a Salesman." The principal character, Willy Loman, was a salesman, but, in a broader sense, he was a symbol of all people who come to their unproductive years, no longer wanted by business concerns because of increasing ineffectiveness, and without provision for the future. While it is not true, of course, that all salesmen are improvident, it may be that those characteristics which lead to success in many sales jobs are not those which would lead to provision for the future. In that case, salesmen would need pensions to a greater extent than other professional men. Furthermore, the need is greater for all people because the retirement period is considerably longer than it has been in the past. Longevity has increased considerably during the current century. The expectation of life at the age of 50 years is about 4 years longer than at the turn of the century among people who hold annuities. Life expectation at 65 years is now about 14 years, according to the insurance companies. While data on the change in life expectation for members of occupational groups is difficult to secure, it is likely that life expectation for salesmen has increased in like measure. Thus provision for old age needs to be considerably greater than in the past. In passing it might be noted that the decrease in the value of the dollar during the 1940–50 decade considerably reduced the provision previously made for old age in the form of savings or annuities.

Two statements of principle in a *Sales Manager's Creed*, Nos. 5 and 11, pertain specifically to this question of employee benefits for salesmen. First, it is said that "salesmen should be offered the same vacation, job or income security, and other employee benefits as are enjoyed by other employees in comparable positions in the same company.[24] The principal of nondiscrimination is surely a sound one in the treatment of employees. However, an interpretation of "employees in comparable positions" is needed in order to put the principle, as stated, into effect, for there are no such employee groups unless the test of a similar compensation level is used. This suggests that the problem of employee benefits for salesmen should be attacked individually, rather than in connection with other group occupations. If the risks are greater, the benefits should be higher. Like benefits may be discriminatory or otherwise, depending upon the risk involved. Second, it is said that "A salesman whose health or well being gives evidence of being preju-

[23] *Salesmen's Compensation Plans*, p. 35.
[24] *Sales Manager's Creed.*

diced by the nervous tensions involved in his work shall be given such relief as may be possible."[25] The acceptance of this statement of principle gives evidence that a company accepts some responsibility and will attempt to be helpful in the problem of readjustment in employment which appears necessary in such cases.

As a case history, the Employees' Retirement System of General Mills, Inc., established in 1940 and amended in 1946, is most interesting.[26] Membership, which includes sales personnel among all other employees, was permissive for the people employed at the time the system was put into effect but is mandatory, with but few special exceptions, for all new employees. The plan provides for four types of benefit: (1) pensions, with various payment options, at age 65 under a plan of joint contribution; (2) special pensions between ages 55 and 65, but not before age 60 unless the employee has completed at least 25 years of creditable service, for any employee who is involuntarily released from the service of the company through no fault or delinquency of his own; (3) death benefits during employment; (4) disability benefits if an employee is permanently and totally disabled at any time before age 65 after 10 years of creditable service. The rates of contribution to the retirement system were established with the intention of providing an employee with retirement income which, together with benefits under the Social Security Act, would amount to approximately 1½ per cent of average annual compensation for each year of service with the company.

This pension plan of General Mills, Inc., is in accord with the statements of principle previously mentioned. The benefits offered go far toward providing the sales force with a reasonable measure of security. Participation in a plan of this character should aid in the recruitment of outstanding men, lessen turnover among salesmen by offering greater financial security, and stimulate sales effort in order to get greater earnings and thus higher retirement incomes.

REVIEW AND DISCUSSION QUESTIONS

1. Characterize an adequate and socially defensible policy of compensation for salesmen.
2. Why is the determination of salesmen's compensation a particularly important and difficult problem in the field of sales management?
3. "To a greater extent than for other non-self-employed professional people the salesman is protected by the market in salary matters." Do you agree? Why?

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[25] *Ibid.*

[26] General Mills, Inc., *Employees Retirement System of General Mills, Inc., Rules and Regulations and Agreement of Declaration of Trust; How to Read Your Future, The General Mills Employees' Retirement System* (Minneapolis, 1947).

4. If you were asked critically to appraise an existing compensation plan for a group of salesmen, what criteria would you use in your analysis? Indicate why each criterion is of importance.
5. Discuss the advantages and disadvantages of a straight-salary plan of compensation. What information should the sales executive have at hand for guidance when periodic adjustments to salesmen's salaries are being determined?
6. The commission plan of compensation has been defended frequently as the plan (*a*) which adjusts compensation most nearly to the relative performance of salesmen, and thus their value to the concern, and (*b*) which most greatly avoids administrative problems. Comment.
7. A drawing account is either a salary or a prepaid commission. Explain.
8. Consider the desirability of basing salesmen's or branch managers' compensation on either the gross or the net profit achieved in their territories or branches.
9. What reasons would you advance for keeping salesmen's expense and compensation separate, in so far as possible?
10. "Salesmen have not shared equitably with other professional groups in provisions for pensions, insurance, and health benefits even though their need for them may be somewhat greater." What reasons can you discern in support of this assertion?
11. *Illustration of Bonus Plan.* In a previous chapter the rating plan for field sales personnel used by the Libbey-Owens-Ford Glass Company was discussed in some detail (see pp. 800–805). One of the purposes of this plan was to establish a fair basis for the payment of a sales bonus, when the company decides to pay a bonus. Sales representatives are rated on a number of bases, and a composite score is computed for each man. All field sales representatives employed by the company for more than six months are eligible for bonus, if paid, provided they have not resigned or been discharged prior to the end of the calendar year for which the bonus is given, and if their composite score is not below 60. If the company decides to pay a bonus, a percentage of the total amount paid in field salaries is established. Let us assume that the amount available is 10 per cent of field salaries. The percentage of each man's salary which he will secure depends upon his composite rating score in relation to the average score in his group (I, II, or II-A). Let us assume further, that the average score for Group I is 80 and that one salesman, A, received a score of 90; another salesman, B, one of 70; and, furthermore, that A's base salary was $5,000 and that B's base salary was $4,000 annually. The difference between a man's rating and the average is doubled, whether above or below average. Thus, in the two cases the determination of bonus would be as follows:

    Case A (composite score 90): 80 (average of group) plus 20 (double the difference) equals 100; and 100 divided by 80 equals 125 per cent. This percentage applied to the 10 per cent bonus equals 12½ per cent of A's salary, or $625.

Case B (composite score 70): 80 (average of group) minus 20 (double the difference) equals 60; and 80 divided by 60 equals 75 per cent. This percentage applied to the 10 per cent bonus equals 7.5 per cent of B's salary, or $300.

a) Has this additional compensation the characteristics of a true bonus? Explain.

b) Why was the difference doubled in the computation of bonuses?

c) Would this plan of bonus distribution be likely to secure the wholehearted support of salesmen?

12. A medium-sized drug and pharmaceutical manufacturer classified its many products into five groups: fluid extracts, pills, tablets, and doctors' specialties; advertised, trade-marked products; cough syrups and other cold preparations; private label products; and private-formula products. Three types of territories were recognized: metropolitan, urban, and rural. Sales were made to jobbers, chain-store companies, small retailers, and department stores.

For many years the company had used a straight-salary plan of compensation plus expenses. During these years the company and its products had become well known through advertising and wide distribution. The company wished to introduce a compensation plan which would furnish more incentive, direct attention to the most profitable lines, equalize territorial differences, reduce selling costs, and eliminate expense accounts. A change in the compensation plan was prompted by a study which showed that in comparable territories the sales expense ratio varied from 10 per cent to 18 per cent; also, that some salesmen sold a much larger proportion of high-margin merchandise than others.

From the studies made of the situation existing in each territory, the company set a commission rate on each of the five groups of products for each territory and for each class of trade. The rates on the different groups of products varied from 5 to 20 per cent, the most profitable groups carrying the highest rates. Similar territories and similar classes of trade had the same rates of commission. The rates set took into account the salesman's expenses as well as his salary. In those territories in which the salesmen had been doing efficient work, the rates set allowed the men to earn practically the same amount which they had earned under the old plan, provided they did the same volume of business. In other territories, in which the selling costs were considered high, the rates set would result in a considerable reduction in earnings. The ultimate goal was a sales expense ratio of 10 per cent, approximately the present performance of the best salesmen.

Because application of the new commission rates would substantially reduce the compensation of some salesmen, it was decided to allow these men a temporary "subsidy" in the approximate amount of the difference in each case. Salesmen were promised that the commission rates would not be reduced for a long time to come. At the same time, they were frankly informed that the cash "subsidies" were only temporary—that the company expected to reduce them gradually over a period of a year or two, during which time the salesmen, by

increasing their sales, particularly of the high-margin products, would be able to maintain or increase their earnings.

Would the new plan of compensation meet the stated objectives? On what bases would you commend and/or criticize the plan?

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PART VII

CONTROL OF SALES OPERATIONS

Chapter XXIX

CONTROL OF SALES OPERATIONS

IN THIS final chapter, emphasis will be placed upon certain control aspects of sales operations. "To control" means to exercise directing, guiding, or restraining power over other people or over events. This, it will be recognized, is the essence of management in any field of operations, since results must be influenced if management exercises its proper functions. In this broad sense, we have considered control of sales operations throughout this text—for instance, in the previous section on the management of sales and service personnel. Therefore, this chapter will be in the nature of a summary because brief reference will be made to certain means of control discussed at some length previously. Attention will also be given to the objectives of control, to some of the problems involved, to the means of control, to the facts needed for control purposes and how these facts are secured, and to the important requisites of control systems. The over-all purpose of this chapter is to furnish some indication of the conditions under which sales executives can function effectively. While control may be exercised at any level of management, attention will be focused on control at the higher levels.

OBJECTIVES OF CONTROL

Basically the objective of control of sales operations is to improve performance in the distribution of goods and services for a particular concern. Because the essential purpose is to increase profits, this means an increase either in the volume sold or in the margins secured, or a decrease in the expenses incurred. However, unless a business concern has no interest in its future welfare or, of necessity, is

actuated only by present considerations, the objectives of control should not be concerned only with the present. Rather, they should be related to the expectation of continued operations over an indefinite period ahead. For instance, the objective of improved public relations extending over a long period may outweigh immediate profit considerations. Thus, the over-all objective of control is to secure and maintain a proper balance between volume, margins, and expense in order to maximize profits, but with full consideration of their effect at any one time upon the company's prospects for the future.

More specifically, the objectives of control systems are to determine whether the policies formulated by management are followed; to determine whether the plans and procedures adopted to attain desired ends are effective, and, if not, whether the fault lies in the plans or procedures themselves or in their administration; and to keep executives informed of what is going on in all parts of the sales organization so that they can influence operations as the need arises. Administration of policies must be watched and deviations noted if control is to be exercised. Plans put into operation must be evaluated to determine their effectiveness for the guidance of those who will be responsible for planning operations in the future. In relation to the conduct of operations, obviously the executive cannot act unless he knows when and where to exert influence. While plans are being executed, sufficient information must be provided to point up deviations from the plans, for otherwise management is divorced from operations and is in no position to function effectively.

PROBLEMS OF CONTROL

The two broad problems of control faced by sales executives are, first, to secure the information necessary to judge situations, and thus to arrive at sound decisions, and, second, to assure that the action determined upon is actually taken by the most appropriate unit in the organization. The first of these problems involves the determination of the types and amount of information needed and where it is to come from, and then the solution of the communications problem. For instance, management needs long-range economic analysis if it is to adapt the operations of the business to changes which are likely to occur in the national economy. There must be a continual awareness of these changes; or sooner or later, in some manner, management will be caught short and the adaptations to them will have to be drastic and highly disruptive, rather than slow and orderly. If the information must come from the field forces, the proper instructions, forms, and frequency of reporting must be decided upon; likewise the nature of the summarization at the home office in order to place the material in form for ready absorption by executives.

If needed information must come from sales records, procedures must be developed for securing it expeditiously, in proper form, and at low cost. A mass of informational material must come to any business concern if it is to operate wisely. The problem is one of sorting out the significant items and determining their interrelations, further appraisal, condensation, and, finally, of placing the material in usable form for top executives. This applies equally well both to external and internal information—i.e., to external economic data, to information on government action and activities of competitors, and also to performance on quotas, budgets, expenses, and other evidences of what is taking place in the business enterprise.

The sales executive wants to be apprised of those things which *should* come to his attention. One of the problems of control is effectively to answer the question posed in the word "should." The connotation is that the matter involved should be of sufficient importance to receive the attention of the executive to whom it is directed. This matter of importance would, of course, differ between the vice-president in charge of sales, the sales manager, product managers, field managers, or other executives.[1] But, frequently, sales executives say that they are covered up with paper work and with conferences on problems which should not be brought to their attention. While sharp lines cannot be drawn on this question of "sufficient importance," still there is good evidence that this problem has not been well solved by business concerns. Basically it is a problem of organization—one of the assignment of authority and responsibility, including the problem of getting people to take the responsibility assigned without requiring too much supervision from higher executives.

If everything ran smoothly according to well-conceived plans, top executives would have little to do except plan for the future. However, according to one study of how sales executives apportion their time among eight major sales activities, 54 per cent is spent in per-

[1] "Perhaps we can best picture this problem in terms of a triangle. At the top of the triangle is the top management of the marketing organization. The apex of the triangle represents a minimum amount of detail necessary for sound judgment and decision in the planning and control of operations at the top level. As we move down the triangle, to the home office department heads, the regional managers and the branch managers, the volume of necessary detail increases because the responsibilities become more detailed. The increase in detail, of course, is compensated for by a corresponding decrease in the scope of information. In other words, the reports which comprise the system of intelligence for planning and control of marketing activities, must be tailored to the executive receiving the report. It is, therefore, the responsibility of office management executives to develop a reporting method that will provide all levels of management with data which give them both perspective and direction, reinforced by *only* that detail necessary for sound decisions." From Ray R. Eppert, "Office Management and the Marketing Activity," p. 3 (an unpublished paper given before the Detroit Chapter, National Office Managers Association, May 16, 1950).

forming five operating functions, 40 per cent in performing four planning functions, and 6 per cent in other functions.[2] The range in the time used for the performance of operating functions is from 36 per cent to 62 per cent. Of the 54 per cent, 28 per cent is used in directing the sales organization. Obviously, there is much time taken in seeing that plans are carried out by an organization. The fact is that there are areas of weakness, or "sore spots," in the administration of any plan, and these areas should be revealed through systems of control. And it is equally true that excellent performance and non-problem areas are revealed in reference to which little, if anything, needs to be done. In other words, to a large extent control needs to be exercised on the "exception" principle, and the extent and significance of the exception determines how far up in the sales organization it should be given attention.

MEANS OF CONTROL

Everything done by sales executives in a professional capacity is a means of control. They take purposeful action to influence the volume sold, the margins, or the direction and amount of expenditure for marketing purposes. Their work on product development is, in a broad sense, control. It is hoped that changes in existing products, development of entirely new ones, or other changes in the constitution of a product line will influence sales favorably, will place the average gross margin secured on a higher level, and will achieve these objectives without too greatly increasing sales expenditures, or perhaps with an actual decrease in the sales-expense ratio. Investigation of the market is a means of control because it is carried forward in order to secure the information needed for control purposes. Pricing and planning the sales effort are obviously concerned with control over volume, margins, and expenses, since they are primarily promotional weapons. The management of sales and service personnel falls into the same broad control pattern.

While all these activities are means of control, here we are principally concerned with devices of various sorts by which executives can influence an organization and through which indications are given of the need for executive attention. The common device is the establishment of standards, or goals, in relation to volume, margins, expenditures—even profits—followed by a periodic review of what is actually done by the sales organization in these respects. Deviations from standards furnish at least presumptive evidence of need for attention, or perhaps forceful action, on the part of executives. While performance can be watched, and changes noted, without the estab-

[2] Policy Holders Service Bureau, Metropolitan Life Insurance Company, *Functions of the Sales Executive* (New York, 1946), p. 26.

lishment of standards, preliminary study of past performance to determine what *is* an acceptable standard for purposes of comparison with later performance has proved most helpful as a control device.

Attention will first be directed to policy as a control device. In a sense, policies of top management are nonquantitative standards of performance for purposes of guidance. Other devices, some of them discussed previously, can roughly be classified as applying to volume, margins, or expenses; and this classification will be used, although it should be recognized that any control measure must, almost of necessity, affect all three.

Control through Policies

A "policy" has been defined as a pattern for guidance in relation to action on individual situations of like character which arise and in reference to which some action must be taken. As a simple illustration, a policy may permit returns of merchandise for any reason whatsoever or only under certain prescribed conditions. With either of these policies formulated and made known, each person down through an organization presumably will know what to do when requests are made for permission to return merchandise, and will act accordingly.

The nature of policy formulation must, however, be recognized. Executives in conference, with some but perhaps not all of the information which they would like before them, come to conclusions of a broad character on how certain problems should be handled when they appear at lower levels. In this procedure there is a tentative assumption that the individual situations which will subsequently arise and demand action are of like character, that they are at least classifiable into broad groups, and that appropriate action can thus be predetermined. At times these conditions are present, and the policy formulated can thus be implemented without much difficulty. On the other hand, the ability to foresee the factors surrounding individual situations, in certain instances, is at best not great; and then policies have to be of a broader nature, with more leeway given to those individuals who administer them. In other words, deviations from accepted policies often make good sense simply because those who formulated the policies concerned could not foresee the conditions surrounding a particular situation. Therefore, disregard of policies may not be willful or the result of inattention, but reasoned and to the best interests of both the company and the customer.

From the foregoing it should be apparent that policies are formulated both at the top level and by those who administer them. In the first instance, it is being done as a whole; in the latter instance, piecemeal, as "usual" deviations become "new policies." It is in error to think of policy as something which is immobile and of permanent

validity over a long period, especially in the field of marketing, in which changes are taking place so rapidly. In contrast, policy is dynamic. This does not mean that an old policy, such as the return privilege of the mail-order houses, necessarily lacks continuing validity, but only that many policies, once valid, are no longer so, and that policies, just as men, can outlive their usefulness in given situations. When this condition prevails, it is likely to be recognized, and deviations from policy become common on the part of organizational units.

Policies are, nevertheless, useful control devices. They reflect the thinking of top sales executives in reference to certain problems and how they should be handled. If they are well thought out initially, they will cover a great majority of individual situations faced by organizational units. The important thing is that management should not demand slavish observance when the conditions surrounding a particular situation were not anticipated. On the other hand, management should be apprised of deviations if they are significant, for, again, deviation may result from carelessness, from a lack of knowledge of what the policy is, or from reasoned judgment. The extent of conformance appears in reports, expense records, and customer complaints, and in many other ways, if plans are made to get such information and communication between the home office and the field is fully adequate.

Volume Controls

Estimates of Future Demand. Quantitative estimates of future demand are in the nature of controls whether they are made for an industry as a whole or for a particular company. From an estimate of market potential, perhaps for a number of years ahead, a particular concern appraises its own position in the industry and determines what part of the total expected volume of business it can secure. For instance, from an analysis of trends in population, number of families, number of family units provided with electricity in urban areas and on farms, consumers' disposable income, retail sales, product saturation, and other factors, manufacturers of household consumers' durables make estimates of probable sales three or four years in advance. While it is recognized that these estimates cannot be very exact because some factors which influence demand are unpredictable, still the magnitudes involved can be predicted roughly and used for control purposes. This is particularly true for a stabilized industry which produces a durable product. The reason is that heavy sales in the immediate past necessarily affect sales in the future adversely simply because the average age of the equipment in use has been reduced and the volume of product in use soon subject to replacement is reduced

likewise. While foresight is admittedly limited, business executives must attempt to foresee the future for planning purposes despite the difficulties involved. To secure a keen awareness of the present and its portent for the future through collection and analysis of all significant data is an important part of the managerial function—one of which is highly necessary if control is to be exercised wisely.

Sales Potential and Quotas. The starting point for many control devices, both of volume and expense, is the sales potential figure, broken down, perhaps, by lines or specific products. This figure provides a standard or standards of performance for the company as a whole. When broken down to field units, such as divisions, districts, and branches, and on to individual salesmen in the form of quotas—and perhaps further broken down on a product basis, a type of customer basis, or to specific customers—volume standards are created for all parts of an organization. Through quotas an indication is given as to where management thinks the salesman should apply his effort in reference to products and to customers by type and size. If proper records are kept in regard to actual performance, which will be discussed shortly, the information needed for control is available.

Margin Controls

Margin and Profit Estimates. A fully developed budgetary control system is likely to include budgeted margins based upon budgeted costs and estimated selling prices. When related to sales potential figures, these budgeted margins on the various products of a line form the basis for an estimate of net profits. While margin standards can be set up, they are often difficult to attain if business conditions are deteriorating, for cost reductions may lag price reductions, which are often forced by competitive action. Budgeted margins, nevertheless, provide a deterrent to hasty action on price reductions by focusing the attention of executives on the effect of such margins on the net profit figure. Again, as previously emphasized, it is a question of what effect a price reduction is likely to have on sales volume and its resultant effect on both manufacturing cost and sales expense per unit.

While the controller of a concern may be responsible for the analysis and comparisons of margins, the estimates of what margins can be secured in relation to projected sales volumes for various products should be made by sales executives. The function of determining margins in some industries is done, not at the home office, but in the field—e.g., in the packing industry on fresh meats. The variables in relation to supply and demand come to focus in the branch operation. The responsibility for adjusting volume, costs, and prices is placed upon the branch manager. He may be given a gross or a net

profit quota, but how he secures it through a manipulation of these variables is left to his judgment. Periodic profit and loss statements by branches and also numerous comparisons of operations between branches may be prepared as means of control. A still further step may be taken through setting up a separate corporation for sales purposes. Goods are billed to the sales corporation; and from that point forward, control over prices, margins, costs, and profits is assumed by sales executives.

Control of the Product "Mix." Another margin-control procedure is to control, in so far as possible, the "mix" of products sold. If a company has many products in its line, the likelihood is that the gross margins on them will differ substantially and, therefore, that changes in the proportions in which they are sold will substantially influence the average gross margin secured. For instance, note the following simple illustration:

Product	Gross Margin	January Sales	February Sales	January Gross Profit	February Gross Profit
A	10%	$ 20,000	$ 50,000	$ 2,000	$ 5,000
B	20	30,000	30,000	6,000	6,000
C	30	50,000	20,000	15,000	6,000
Total		$100,000	$100,000	$23,000	$17,000

In this illustration, while total sales remained constant, the "mix" of sales changed substantially; and, as the gross margins on the three products differed, the total gross margin secured changed likewise. The significance of a changing product "mix" in total sales thus becomes apparent.[3]

Management in many companies provides for a periodic breakdown of the total sales figure among products, often monthly. If the "mix" is improving, i.e., if the products with relatively high margins are selling in larger proportions as time goes on, the situation is usually considered a favorable one. If, in contrast, the movement is in the opposite direction, corrective action may need to be taken, perhaps through inducing salesmen in some manner to place a greater proportion of their time and effort on high-margin products. It should be recognized that comparisons may also be made between the actual sales breakdown on a product basis and the one which was projected in the sales potential. Because the various products may not have the same seasonal pattern, this factor should be taken into consideration when making comparisons between specific months or "year-to-date" and annual projections. When the deviations in proportions between

[3] See Richard D. Crisp, *How to Reduce Distribution Costs* (New York: Funk & Wagnalls Co., in association with *Modern Industry Magazine*, 1948), chap. viii.

actual and projected sales are wide, further research is called for to discover the reasons therefor, followed by appropriate action.

In the interpretation of changes in the proportions of various products in total sales, it must not be assumed that a relative change is necessarily more significant than an absolute one. For instance, the proportion of high-margin items in total sales might be decreasing, while the actual dollar sales were increasing, or vice versa. If the products of a line were not substitutional, the sales of one might be influenced by factors entirely different from those which influenced another product. Furthermore, a change in business conditions or in consumers' purchasing power might shift demand from one unit of a line to another, particularly if the items were different grades of the same product. There might be nothing which a company would wish to do or could do about changes in the sales "mix" of its products. Nevertheless, as the "mix" may substantially influence gross profit, information on it should be secured periodically; and then, after further analysis of causal factors, decisions can be made as to the necessary extent and direction of remedial action.

Expense Control through Budgeting[4]

The principal instrument of a continuing character for expense control is the sales expense budget. This type of budget is, in fact, an accumulation of many individual expense estimates made throughout the organization, involving all types of activity concerned with the sales task. All marketing plans which are put into effect necessarily appear in the sales expense budget, which embraces many individual budgets for home office departments and for various field operating units—zones, regions, branches, and even, perhaps, for individual salesmen. Thus control is exercised at many different points in the sales organization.

Both the determination of the sales expense budget and the subsequent follow-up procedures were discussed at length in Chapter XIV. Here it needs only to be reiterated that control by sales executives is exercised both in the process of reviewing expense estimates prior to the adoption of a budget and, subsequently, if the accounting records show that expenses actually incurred deviate markedly from those projected. Attempts to evaluate the effectiveness of particular sales expenditures made previously and experimentation to discover either the absolute or relative effectiveness of means for accomplishing certain objectives are, in effect, control measures. With the guidance that these investigations furnish and their experience to draw upon, executives review budgets and, finally, perhaps after extensive revision, ap-

[4] See Chapter XIV, pp. 439–51.

prove them. During the period over which the budget is in effect, comparisons between actual and projected expenses are made periodically; and with the information thus secured, the need for additional control by executives can be appraised and can then be exercised when and where needed.

Expense Control through Distribution Cost Accounting

During the last two decades, there has been considerable emphasis on distribution cost accounting, both as a means of control of sales operations and as a means of justifying price differentials under the Robinson-Patman Act. Cost accounting for the latter purpose was discussed in reference to pricing and price policies.[5] There it was indicated that a cost defense of price differentials, while difficult, to say the least, has in certain instances been accepted by the Federal Trade Commission and the courts. It was also stated that distribution cost accounting has not been developed to a point where practitioners agree either on methods of procedure or on findings. While there would probably be a consensus that few of the problems encountered have been fully solved, still the conclusions reached by some concerns from cost studies undoubtedly have been useful in the later direction of sales efforts. Moreover, as expense and functional classifications improve and techniques for allocation of expense to functions become more acceptable, cost studies will have greater significance for use by management.

Improvement in distribution cost accounting techniques and procedures is likely if and when the need arises. As yet, distribution cost studies are a relatively new type of analysis, but one on which considerable progress was made in the thirties. However, there was little progress in the forties, probably because cost reduction by private concerns seemed relatively unimportant in times of product scarcity and inactive competition. High tax rates on excess profits during the war and the preoccupation of research workers with the war effort also were retarding factors. Late in the forties, when active competition reappeared, interest in distribution costs again revived, only to subside with the new mobilization effort after the outbreak of war in Korea. Progress, even in methodology, is largely the outgrowth of need; and when need lessens, interest wanes and little is accomplished.

Objectives of Cost Analysis. The over-all objective of cost analysis is to furnish information through the use of which sales operations can be improved. Analysis is a breaking-down process—in this instance in relation to functions and costs. Cost is incurred by the performance of functions. Therefore, the problem is one of determining

[5] See Chapter XI, pp. 336–39.

what functions are performed and what it costs to perform each of them under given circumstances as to product, type of buyer, territory in which sales are being made, and size and composition of orders. What the manufacturer would like to have is a complete picture of cost variances on these bases. Simply stated, he would like to know what selling costs actually are or should be under any combination of circumstances—e.g., costs of selling retail dealers in small, scattered towns who habitually purchase a number of items in small quantities, resulting in an average order of a certain size. He may wish to know what it cost him to sell a particular dealer at a "hardship" point in a territory—one which is isolated and difficult to reach. He may wish to know whether product A should be withdrawn from or included in his line. This is a function of both gross margin secured and expenses incurred on the product. Whether the manufacturer *should* continue to handle certain products, cultivate certain territories, attempt to sell to certain types of buyers or certain individual customers, or solicit customers who habitually purchase in small amounts can only be determined if he knows his costs—not in total, but broken down to particular functions and allocated to particular products, territories, classes of buyers or specific buyers, and sizes of order in accordance with the extent to which they utilize these functions. In one particular instance, a manufacturer, as a result of cost analysis, reduced his line of products, his customer list, and the territory which he covered all by about one third and increased his net profit appreciably in the following year. Certain expenditures had not been "productive," or this result could not have been accomplished.

There is benefit in looking at the costs of performing specific functions as well as the summation of these costs for specific products, territorial units, etc. It is axiomatic that costs must be attacked individually rather than as a whole.[6] For instance, in one cost study in reference to photographic supplies, it was found that the cost of billing and order writing was $0.2666 per shipment; that packing and shipping cost $0.2482 per shipment; that the annual cost of credit and collection was $2.1515 per dealer; and so on. Such costs may appear too high, and a study of operations may indicate possibilities of reductions. Standards may then be established at a lower level, one which constitutes at least satisfactory performance under the conditions which exist. In each instance, sales executives must attempt to determine whether the various functions are performed efficiently and at reasonable cost, and for this purpose standards are useful. Only through analysis of past costs and further investigation can management know not only what it actually does cost to perform each of various functions but what the cost should be. If there is substantial

[6] For a functional classification of distribution costs, see p. 443.

variance in performance among field units that perform some of these functions or among salesmen who perform others, standards should represent, not necessarily best performance, but good performance. Otherwise there might appear an unreasonable expectation on the part of management.

Cost Analysis versus Financial Accounting. Cost analyses are special studies largely of a statistical nature. They are not a part of the regular accounting activities. Attention is confined, not to individual transactions, but to group transactions, in an attempt to determine their common characteristics. Samples are habitually used. For example, when costs are being determined for orders of various size groups, a thorough examination is made of a limited number of orders in each group. Furthermore, distribution cost accounting, in contrast to financial accounting, is concerned with data other than that related to value. Nevertheless, cost studies and financial accounts are related in one important way. The classification of expense items must be more minute and more carefully done if cost analysis is to be attempted than if it is not. The reason is that the cost data compiled by the accountant is the raw material of the cost analyst. If costs of dissimilar character are lumped together in the accounts, there is no possibility of sorting them out later at reasonable cost. But, if the classification of functions for which cost data are assembled is sufficiently detailed, no difficulty is likely to be experienced by the cost analyst when he attempts to build up total costs for particular products, territories, etc., on a functional basis.

Difficulties Encountered in Cost Analysis. The difficulties encountered in distribution cost analysis center around two essential problems: first, determining the functional breakdown of costs for any product, manner of selling, territory, etc.; and second, determining the extent to which each particular function is performed in each instance and allocating costs to it. The first is the usual problem of determining what is done through investigation and classification; the second is the problem of cost allocation—one which is greatly complicated in distribution cost accounting by the presence of many joint costs. To emphasize the difficulty of these problems, fruitful comparisons can be made with production cost accounting. In the latter, it is a question of costing mechanical, controllable, repetitive operations in a centralized location. In contrast, distribution costs are more associated with human effort than with machines, and they may be spread over the national market. Nor does the manufacturer have complete control over all operations if he sells through certain channels of distribution, although he is interested in their costs. Even when costs are determined, the follow-through for control purposes may encounter difficulties. Then, also, the production process, while complex, is relatively simple and thus manageable, compared with the

multiplicity of activities involved in the distribution process for most products.

It should be recognized that the line of demarcation between production and distribution costs is unclear and, therefore, that some distribution costs resemble production costs. The so-called "order-filling costs, in contrast to the "order-getting costs," are of this nature. Storage, order assembly, packing, and shipping costs might be considered a part of the production, rather than the distribution, process. Clerical costs, such as order entry, credit extension, billing, and accounts receivable, pertain to operations which, to a large extent, are concentrated, repetitive, and mechanical. Therefore, for costs of this character, the problems involved are markedly similar to those in production cost accounting and much more manageable than order-getting costs. Functions performed can be isolated, costs can be allocated on a reasonable basis, and standards can be established.

Cost elements in relation to order-getting are much more illusive, much more intangible, than are production costs or order-filling costs. The problem of determining how much of the cost of sales solicitation, advertising and other sales promotion, and miscellaneous means of securing orders should be assigned to each of many products,[7] territories, or types of buyer is most difficult and cannot be done with great accuracy. Suppose, for instance, that a study was being made of the costs of selling different products and that there was no specialization on a product basis by salesmen. While the cost of each sales call might be determined with some accuracy, to allocate that cost among a number of products, all of which were sold, would be considerably more difficult. The cost might be allocated in relation to the value of the items sold, but then the assumption would be made that the time taken by the salesmen with the customer in reference to each product varied proportionately to value—an assumption which might be questioned, particularly because time was probably spent on some products which were not ordered. This is an illustration of the familiar problem of allocating joint costs in some reasonable manner. The proper bases for allocation are often not clear, nor would any base be fully acceptable.

As mentioned previously, management may need cost analyses based on products, types of buyer, territories, and sizes and composition of orders—at times even on specific accounts. These analyses vary considerably in reference to the difficulties usually involved. Difficulty is largely an outgrowth of the extent to which there is specialization in function. For instance, if certain salesmen handle only a particular product, and no other salesmen handle it, the costs of solicitation for that product obviously are not difficult to allocate on a product ba-

[7] For a classification of order-getting means, see p. 422.

sis. If certain salesmen handle all solicitation of wholesalers, solicitation costs by customer type might be easily allocated. But, when there is "combination" selling of products to many types of buyer, and even territories are not clearly bounded, the problem of cost allocation may be almost an unsolvable one. Yet, considerable progress has been made both in a breakdown of functions and in the allocation of costs to them under given circumstances as to product, territory, etc. Moreover, the results of cost analysis, although not particularly accurate, have been sufficiently so for practical use. The results are so conclusive in some instances that the margin of the error becomes unimportant. For instance, if a study showed that the cost per dollar of sales was considerably greater than the gross profit on the merchandise sold to small dealers, the results would be conclusive even though there were some errors in cost computation.

The problems involved in determining the proper bases of allocation will not be discussed further in this text. Suffice it to say that they are difficult and call for the services of trained personnel, trained both in marketing and in cost accounting. Problems of presentation of cost studies and of creating the proper attitude toward them are also present. A proper balance in attitude is needed on the part of executives. Cost analyses should not be considered the panacea for all marketing ills, nor considered of no value whatsoever for control purposes. Potentially they are a promising instrument for control purposes when conditions again demand close attention to distribution costs and to their reduction in order to compete effectively in the market. While better performance in relation to marketing costs should not await crisis situations, still, in periods of scarcity of goods and inactive competition, problems other than cost control take precedence in the eyes of management.

Use of Cost Analysis Data. Cost analysis data may be used for many purposes, some of which have been mentioned. They may suggest simplification of a line of products, reduction in inventories, a change in distribution channels, a reduction in services offered, price changes, changes in the extent of solicitation or the means of promotion, withdrawal from some territories, establishment of a minimum size of order, or no further solicitation of certain types of buyer. The word "suggest" is used advisedly, for there are few instances, indeed, in which the initial results of cost analysis are sufficiently conclusive to dictate immediate action without further investigation. What the cost analysis may tell management is that certain products, territories, types of buyer, etc., *as they are handled by the company*, do or do not contribute to profits. For instance, if an analysis showed that dealers whose annual purchases were under $100 were unprofitable to the company—that expenses incurred in handling the accounts were greater than gross margin—expenses might be reduced through less

frequent solicitation or in some other manner whereby these dealers would become profitable. Cost studies direct the attention of management to certain unhealthy situations. Management, through further analysis, determines what action to take. Nevertheless, the first step—a knowledge of the condition which prevails—is taken through cost analysis; and suggestions as to action are often secured in the analysis process for later evaluation by management.

FACTS NEEDED FOR CONTROL PURPOSES

First, it should be recognized that the facts needed for control purposes in any business, whether large or small, are multitudinous but tend to increase with the size of the business enterprise, the area over which it operates, and the number of products which it sells. Some of these facts are external; others internal. Some are secured from long-range analysis of economic trends which will affect future operations; others, from analysis which immediately precedes periods of time for which specific plans are made—for instance, that involved in determination of the market and sales potentials and the sales expense budget. This is the information needed for making plans and for setting up standards which will serve as a guide to operations over an advance period. Another sort of information required is that concerned with actual performance in relation to sales expectations, expenditures in relation to budgets, etc. This information must come from sales analysis, i.e., the analysis of internal sales records, and from expense analysis, i.e., a breakdown of actual expenses incurred on some predetermined classification. Finally, information is secured from special studies which are often suggested from analyses of a continuous character. Seldom do continuous analyses do more than indicate the location of unfavorable performance—the "exception," or the "sore spot," in operations. The "why" of the matter must be investigated before corrective action can be taken. Thus the necessary information comes from long-range economic analysis, from analysis for more immediate and specific purposes, from sales and expenditure analysis, and from special investigations to determine causal factors precedent to corrective action. Only the latter two will be discussed in this connection, since the first two were considered at some length in Chapters VII–IX.

Sales Analysis

In order to exercise control when and where needed, sales executives must have a clear picture of the "anatomy" of the sales volume of previous periods. The information resides in accounting records,

or perhaps in statistical records based upon accounting data. The questions for sales executives are what information is needed, how frequently, and in what form. Decisions on these points condition the manner in which basic data are handled by the accounting offices, also the actual data which are collected. For instance, sales executives may wish each account to be characterized in certain ways, and sales data presented on the basis of an account classification to be based on these characteristics. Without prompting, the accountants might not recognize the significance of such a classification. Thus, sales executives must concern themselves with the data collected, how it is handled for purposes of analysis, and the nature of the reports which will subsequently become available to them. The basic tasks of the controller from the sales point of view are to develop an adequate reporting system, to process the sales data, and to prepare the reports desired in an accurate and prompt manner.

The information desired by sales executives from the accounting and statistical departments will vary considerably, depending upon type of product, market covered, and other somewhat obvious factors. In one particular instance, that of a manufacturer of photographic supplies, the information periodically made available is as follows:

1. *Monthly report of sales by products*—total dollar sales broken down between sales of nineteen products, percentages of total shown for each product; also cumulative dollar sales and percentage of total for each product for the year to date; percentage breakdown of total sales among products shown for the previous year for purposes of comparison.

2. *Monthly report of sales by products in physical units.* Same information presented as in (1), but in physical units rather than in value terms.

3. *Monthly sales to house accounts*—dollar sales to wholesalers, chain stores, mail-order houses, government (direct), service accounts (Army and Navy), and other accounts handled directly from the home office; percentage of total sales made to each type of account; cumulative sales to date for the year both in dollar figures and percentages for each type of account.

4. *Daily record of sales, production, and inventories in physical units by products.*

5. *Monthly report on sales and commissions of each salesman*—net sales during past month, sales year to date, commissions earned, commissions year to date, extra commission (for introduction and sale of new products), extra commission as a percentage of the salesman's total sales.

6. *Monthly comparison between actual sales and projected sales by products in physical units*—sales data, and percentages over or un-

der projected sales (projections are made monthly and are used largely for production and inventory control).

7. *Monthly dollar sales by zones*—actual sales, other than to house accounts, broken down on a percentage basis between ninety-eight zones and by products in each zone.

8. *Quarterly report on sales to key accounts in total and by products.* (Like many concerns, this company makes a large proportion of its total sales to a relatively small number of key accounts; therefore, if difficulties are being encountered in any particular zone or in any particular product, an analysis of sales to key accounts may isolate the difficulty and suggest the solution.)

9. *Occasional study of sales by sizes of account.* (A frequency distribution is made of accounts by sales in dollars for a given period. Then computations are made to determine what proportions of total sales are made to various proportions of total accounts.)

10. *Occasional reports on the proportions of total sales made to different types of buyers.* (Management wishes to be informed of the increasing or decreasing importance of different types of retail stores and house accounts as outlets for the company's products.)

In addition, all of the company's executives receive a monthly report, prepared by the treasurer, on gross and net profits after taxes in comparison with monthly projections. These are based upon sales projections and budgeted costs.

While this manufacturer of photographic supplies undoubtedly secures most of the information from sales and financial records needed for control purposes, two other types of analysis have proved helpful in other situations. These are concerned (*a*) with sales in relation to inventories in the hands of distributors, both at wholesale and at retail, and those under the control of field offices, and (*b*) with the sales of competitors. Particularly for consumers' durables such as automobiles, refrigerators, and heating and cooking equipment, inventories in distributors' hands are watched closely and related to current sales and production for purposes of control. In the case of refrigerators, other household durables, and office equipment, sales by trading areas are periodically reported by most manufacturers to trade associations. They are then assembled; and the total figures, with appropriate breakdowns by product type, are reported back to those manufacturers who participate. Sales of motor vehicles by political areas are also determinable because of the requirement of registration. Thus, for all of these products, it is possible for each concern to compare its performance in different parts of the market with that of the industry as a whole. For each zone, region, district, or branch, the proportion of total industry sales made by a company can be computed for each product and, in some instances, by models within a product type. Trends can often be discerned, either favorable or otherwise. Thus,

through the data furnished by sales analysis, both by the individual company and by the trade association, information highly essential for control is made available. It should be recognized, however, that industry sales data are not available in most instances and that companies must, therefore, rely upon their own sales data and on occasional information which is secured on the operations of competitors to determine how they are faring competitively in the market.

In summary, sales analysis provides reports on dollar and, perhaps, physical unit sales, by products, by territorial units, by types of customer, by salesmen, by key accounts, by sizes of account, for any time period desired. All or any part of these data can be assembled and presented to sales executives. These data can be compared in a multiplicity of ways, and variations between individual items or from the averages on some other standard noted. For instance, the "mix" of products in total sales volume for different territories can be observed; also the distribution of sales by size and type of customer in different territories. And the data can be used for comparison with projected sales—sales potentials and sales quotas, to indicate the level of performance; with inventories, production, and billings, to secure a complete picture of the production and movement of goods; with industry sales, to show competitive position for the company as a whole, for different products and in different parts of the market; and with budgeted expenses and with those actually incurred, again to indicate the level of performance in different parts of the field sales organization. This information can be placed in tables, and often on charts and graphs, for ready assimilation by top executives.

Expenditure Analysis

In addition to reports on sales, executives must have periodic reports on expenditures incurred, broken down in sufficient detail for purposes of control. If expense budgets are used, comparisons can be made between actual and budgeted expenditures, variations noted, and explanations sought. This procedure will be followed not only for the company as a whole but for all field units—zones, districts, branches, etc.—and for home office departments, i.e., for any organizational unit whose expenses are isolated in the accounts. Obviously, executives must first know of deviations from planned expenditures and where they have occurred before they can act constructively. Their attention must be directed toward certain expense areas by means of reports. Then the question arises as to whether these deviations were desirable, if on the minus side; whether they were justified, if on the plus side. In either instance, these expenditures must be related to accomplishment if they are to have any meaning. Therefore, the next step is to look at sales or at other evidences of accomplish-

ment, together with the expenditures incurred. No sales executive objects to increased expenditures if they have produced satisfactory results and were necessary to do so.

Sales-Expenditure Comparisons[8]

If a company uses both quotas and expense budgets as control devices, data on operations may be presented in a single table, such as that shown in Figure 30. Tables of this sort might be prepared also for

FIGURE 30
UNITED STATES SUMMARY
Branch Operating Report, May, 1950

Current Month:				Year to Date:		
ACTUAL	QUOTA/ BUDGET	FINANCIAL PERFORMANCE	%	OVER/ UNDER	QUOTA/ BUDGET	ACTUAL
		Equipment Orders				A
		Service Revenue				B
XXXX	XXXX	TOTAL REVENUE	XX	XXX	XXX	XXX C
		Total Sales Operating Expenses	%A			
		Total Service Operating Expenses	%B			
		Total Facilities Expenses	%C			
XXXX	XXXX	TOTAL BRANCH OPERATING EXPENSES		XXX	XXX	XXX
		SALES OPERATING EXPENSES				
		Salesmen's Salaries				
		Salesmen's Commissions				
		Junior Salesmen's Salaries				
		Field Instructors' Salaries				
		Overtime Premium				
		Supervisory Salaries				
		Supervisory Commissions				
		Traveling Expenses				
		Association Memberships				
		Periodical Subscriptions				
		Miscellaneous				
XXXX	XXXX	TOTAL SALES OPERATING EXPENSES		XXX	XXX	XXX

any territorial unit. The data for necessary comparisons would be present in these tables, but the procedure would be greatly simplified for busy executives by showing the relationships on simple graphs. The objective is, of course, to point up the deviations from planned sales and expenditures. This may be done by means of diagrams such as those shown in Figures 31 and 32.

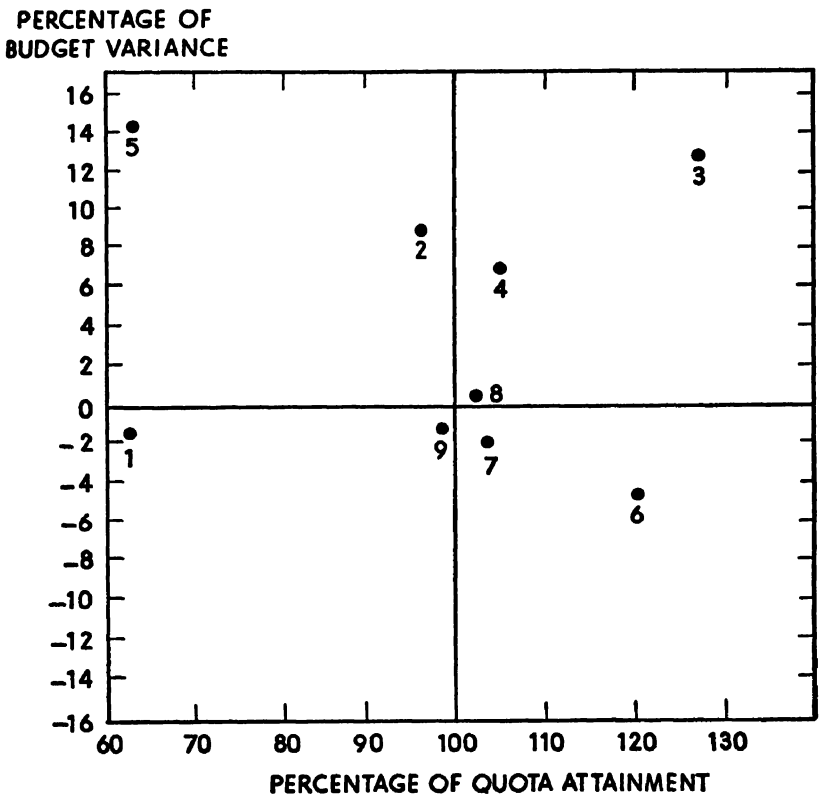
It will be assumed that the company operated through nine regions and many branches. Through the use of the diagrams, four types of situation are isolated: (1) those in which expenditures are over

[8] The following analysis, including the table and diagrams (Figs. 30–31), is adapted from the article by Ray R. Eppert, cited in footnote 2 on page 859, above.

budget, sales are under quota; (2) those in which expenditures are over budget, sales are over quota; (3) those in which expenditures are under budget, sales are below quota; and (4) those in which expenditures are under budget, sales are over quota.

In Figure 31 the performance of each of nine regions is shown. It will be observed that Region 5 showed the poorest over-all perform-

FIGURE 31
UNITED STATES SUMMARY
Comparison of Equipment Quota Attainment with Sales Operating Expense Budget Variances, May, 1950

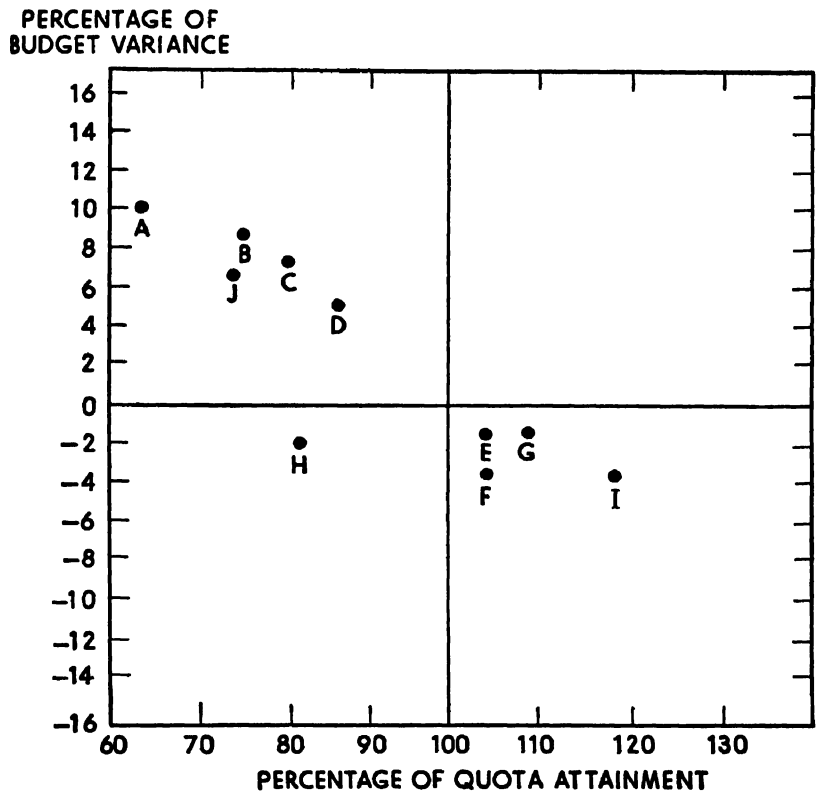


ance. Expenditures were over 14 per cent above the budgeted figure, and sales were only about 64 per cent of quota. Quite evidently this region is experiencing serious problems in sales and expense control. In contrast, Region 1 has kept its expenses in line, but for some reason, sales are much below expectations. Regions 7, 8, and 9 are about normal in both expenditures and quota attainment. Region 3 is much above budgeted expenditures, but the increase is justified by sales.

In those regions in which difficulties are being encountered, a closer look must be taken at operations to focus more clearly the points of difficulty. In this instance, Regions 5 and 2 would undoubt-

edly receive attention. Because each region is composed of a number of branches, the same procedure as for regions would be followed. Figure 32 shows the situation in Region 5. Of ten branches, four (E, F, G, and I) are doing well—they are plus in quota attainment and minus in expenditures. They would require no attention on the part of top sales executives. Five branches, however—A, B, C, D, and J,

FIGURE 32
REGION NO. 5
Comparison of Quota Equipment Attainment with Sales Operating Expense Budget Variances, May, 1950



and particularly A, B, and J—require attention. It is likely, in a situation such as this, that the analysis can be taken at least one step, perhaps two steps, further. Quotas have probably been assigned to the salesmen who work out of each branch; possibly each salesman's expenses have also been budgeted. In the latter case, the salesmen who are having difficulty with their quotas can be isolated, and their expenses can at least be noted. Then the analysis may be carried still further to those key accounts which, for some reason or other, are not taking the expected volume of products. It may be found that the

difficulty lies in the inability of the branch to secure orders for particular types of products.

The important thing to note is that, through the procedure just outlined, the points of difficulty in relation to both expenditures and sales have been isolated for executive attention. From a mass of information on expenses and sales coming into the home office—perhaps from all over the United States and from abroad—the areas of difficulty which are of sufficient importance to merit the attention of top management have become known. The data presented do not tell these executives what to do, but only that further investigation is needed and that the need for purposeful action is probable. In a situation such as that of Region 5, the sales manager can call the regional manager's attention to the poor performance in branches A, B, C, D, and J. The regional managers have probably recognized the fact of poor performance, but it is important that they know that the higher executives recognize it likewise. Since the regional managers are the responsible parties, they can be expected to furnish explanations and to indicate what action should be taken to correct the situation in their particular regions. They, in turn, expect explanations and suggestions for remedial action from their branch managers; and the latter, from salesmen. Finally, through the knowledge, interest, imagination, judgment, and co-operation of all levels of management, means may be evolved and put into effect which will improve performance.

REQUISITES OF CONTROL SYSTEMS

Again it should be reiterated that control systems involve both analysis and later action. People are more likely to think of such systems in their checking-up aspects and fail fully to realize that review and analysis are only the prelude to action when and where the need arises. The broader connotation of the term "control system" is recognized if its essential purpose is kept clearly in mind, which is to extend the capability of executives in the performance of planning and administrative functions. This does not refer to capability in the personal-competence sense, but in the broader sense of having the information through which sound decisions can be made and appropriate action taken. The sales executive must have the information which will enable him to see things in their proper perspective—the informational environment in which he can be effective. Too much information, not properly condensed, and, particularly, not properly related, is confusing and may give a distorted picture. Too little information simply means that some of the necessary "raw material" for sound judgments is lacking and that decisions may, therefore, be in error, to the detriment of the business enterprise. Thus the first requisite of

a control system is a proper informational balance—one which is always difficult to achieve in particular situations.

A second requisite is proper liaison between all parties concerned and proper co-ordination among them. From the preceding discussion it is apparent that many organizational units, both within and outside the jurisdiction of the top sales executives, participate in the control effort. Among outsiders are office management, the controller's office, accounting and statistical groups, production departments, and perhaps people in personnel. If these outsiders are effectively to serve the sales organization in its control activities, the information wanted must be clearly stated; the fact that they have the responsibility for providing it must be recognized; and the responsibility must be accepted. This is a matter of proper liaison and co-ordination among major departments exercised at still higher levels.

More specific requisites of sales control systems will be discussed under six different headings, namely, (1) getting information from the field; (2) analysis, appraisal, and summarization; (3) development of plans, policies, and standards; (4) deviations or exceptions; (5) reconnaissance or investigation; and (6) action. These might be considered steps in the control process, although the classification is a rough one.

Getting Information from the Field. Information from the field is secured from both external and internal sources. In regard to external sources, a company must see that the avenues are open so that new facts, theories, even conjectures, flow in and get to the proper individuals. This is largely a matter of being sure that executives and staff members have frequent contacts with other concerns, including competitors, with governmental units, with colleges and universities, and with other organized groups of various sorts. Much of the necessary stream of information will come from published sources, both governmental and private. In any control effort there is no substitute for a continual awareness of the course of events.

In regard to information from company personnel in the field, the requisites are a well-thought-out informational pattern—a careful determination of just what information can be used and whether its accumulation can be justified in view of the expense involved. Then there is a question of developing a reporting system, one which is adequate and easily understood, and one which requires a minimum of time for the salesman or field manager in view of the results attained. Also, a requisite of control *is* control in the sense that management must so act that reporting is comprehensive and prompt. Information which does not arrive on schedule may obviate control because executives cannot be apprised in time of what is happening in the field.

Analysis, Appraisal, and Summarization. No sales control system will work effectively unless responsibility and authority for processing incoming information is given to organizational units—accounting, statistics, marketing research, sales analysis, etc.—and their personnel is of sufficiently high caliber to do the necessary work of an analytical character. Procedures must be worked out to process the information accurately and promptly. Some of the work will be of a periodic character and can be largely routinized. Appraisal, however, is a matter of judgment. Sales executives often wish to know what the data as assembled and interrelated mean to the analyst. While the analyst's judgments may not be accepted, they are, nevertheless, of considerable aid in the formulation of judgments by higher executives.

Development of Plans, Policies, and Standards. Any control system should be so set up and activated that it will constantly concern itself with the appraisal of performance for future guidance. The implications of the familiar quotation, "In darkness lives a people who knows its annals not," apply to business concerns as well as to nations. Since history must be known and interpreted for what guidance it can furnish to mankind, so must a business concern know and interpret its experience. Stated succinctly, no company needs to make the same mistakes over and over again, and will not do so if evaluation of performance is effective and prompt. While the difficulties of imputation are recognized, they are not, in most instances, insurmountable. Businessmen can learn from experience—both their own and that of others.

From an analysis of experience, together with deductive analysis, experimentation, and imagination, come sales plans and policies. If the information secured and analyzed is comprehensive, standards of activity, volume, margins, and costs can be developed which make possible prompt appraisal of the performance of field management units and salesmen. Therefore, one important requisite of a control system is that it furnish the materials needed for the development of plans, policies, and standards.

A control system should provide only that information which actually is used, and the use of which justifies the cost of obtaining it. Often it is a question of compromise, because the information which some executive desires could be secured but its cost could not easily be justified. Many control systems have become cluttered up by incoming information and later analyses which have little purpose. Informational activity is continued which has outlived its usefulness. Unless people see clearly how information will be used, and can justify to higher executives the cost incurred, its accumulation should not be started. Control systems, just like other systems, may become overcrowded, cumbersome, and in need of renovation.

Deviations or Exceptions. A control system should be so devised that it points up deviations from plans and policies and other points of weakness in operations clearly, and sufficiently soon so that corrective action can be taken before the deviations get too far out of line. For instance, if someone in an organization is failing to do his particular job in reference to a sales program or campaign well and according to schedule, the control system should bring this fact to the attention of the executives at higher level. Furthermore, sales data should be sufficiently broken down so that ineffective effort or a lack of sufficient effort can be spotted quickly. This means data available on sales to every important segment of the market by products or product classes. Only through provision for sales analysis of this character can deviations from volume standards be determined. A system should also provide information on deviations from expense standards, including budgets. Then volume and expense deviations should be related, as indicated in Figures 31 and 32.

The need for relating types of information before presentation to sales executives is well indicated in the following quotation:

> As an illustration, let us assume that an expense report shows that company-wide traveling expenses over a period of three months have increased 10%. If that's the only information in the report, the executive receiving it can do nothing except ask further questions. If, during the same three months' period, there has been a 15% increase in sales personnel, that fact might provide part of the answer to his question. Now if both facts are submitted to the executive in separate reports, on different days, that executive is in the position of a man receiving odd pieces of a jigsaw puzzle by mail. The picture which he receives means nothing until he gets further facts.
>
> Now suppose that we present to the marketing executive a report which includes in one package these four facts: (1) sales have increased 20% during the past three months, (2) the sales force has been increased 15% during the same period, (3) total sales traveling expenses have increased 10%, (4) travel expenses per man have decreased 4%. Under these circumstances, the executive has a unified picture of results and also a suggestion concerning causes. He has information about revenue, about costs, and about personnel as a factor affecting both cost and revenue. Certainly then, he is in a better position to make a decision. That plan can be applied to other areas of control—service cost and service revenue, clerical cost and the number of clerical employees. With adequate information, the report can be presented in complete enough form to lead to intelligent action.[9]

Reconnaissance or Investigation. It is a military adage that reconnaissance is seldom wasted. Nor is it wasted in business. Despite the preparation of unified reports and careful attention to them, it is sel-

[9] Eppert, *op. cit.*

dom that a sales executive has all of the answers. Rather, he has, as stated above, "suggestions concerning causes," i.e., certain tentative hypotheses as to causes which need verification before action, based upon them, is taken. In long-range business forecasts the analysts go much further in the interpretation of what assembled data suggest as to desirable action. Even then, top executives will probably need to do something by way of further investigation. Thus, one requisite of a control system is that it provide executives not only with facts but also suggestions as to possible action where significant deviations from plans or standards are observed. A nice balance needs to be observed between "suggestions" and "dogmatic conclusions," because, if a matter is of sufficient importance to be brought to the attention of a top executive, the probability is that the course of future action is unclear and therefore needs his thoughtful consideration, which, in turn, probably means additional investigation.

Action. Finally, as the culmination of all other activities included in a control system, action when and where needed is required. While this appears obvious, a control system may have form but not substance, in the sense that the necessary steps are taken to inform executives of over-all marketing performance but action is not taken promptly, nor, when necessary, in a forceful manner. Thus a control system must in part be judged by the basic competence of the sales executives who plan and administer it—their foresight; their ability to comprehend ideas, to discern quickly just what the difficulties are in particular situations; their decisiveness and willingness to act promptly when they have become convinced that action is needed; and, at times, their willingness to take a calculated risk when the stakes are high but the road ahead is none too clear. Furthermore, it is a question of *how* sales executives use the control system evolved. It can be used unwisely, to exert more and more pressure on sales personnel, or for purposes of real leadership. Executives must create an environment in which they can be effective, but they must also use that environment wisely and well in the interests of the business enterprises which they serve.

REVIEW AND DISCUSSION QUESTIONS

1. What are the broad objectives of sales control systems?
2. In view of the rapid changes in market conditions since the end of World War II, is it possible to set up sales potentials and quotas and sales expense budgets which are helpful in the control of sales operations and not so inaccurate as to be misleading? What are the means by which flexibility is introduced into potentials, quotas, and expense budgets?
3. Why is it that the essential nature of policy is so frequently mis-

understood? Is policy formulation as done by business enterprises primarily a deductive or an inductive process? Characterize what you consider to be a defensible position for business concerns in regard to policies—their formulation and administration, i.e., a policy in relation to policies.

4. Attempt to classify the types of information needed by sales executives if they are to perform the various functions assigned to them effectively. How frequently are various types of information needed —daily, weekly, monthly, or even less often?
5. Suppose that the distribution of sales by some salesmen among the various products in a line—i.e., the "mix" of products—did not closely approximate the distribution for the company as a whole. Would this condition furnish good evidence that these salesmen were favoring some products, neglecting others? What action would you suggest by management if the product "mix" for individual salesmen varied substantially from the "mix" for the company as a whole?
6. Cost accounting as applied to marketing activities is more closely related to statistics than to financial accounting; nevertheless, accounting records must be reasonably adequate if meaningful cost analyses are to be made. Comment.
7. What are the most significant conclusions which, in general, have been reached by means of distribution cost accounting? Comment upon the attitude which the business executive should take toward cost studies, and the manner in which they should be used.
8. A manufacturer of photographic equipment and supplies made a frequency distribution of his accounts on the basis of annual purchases. It was found that a small proportion of the total accounts furnished a large proportion of the total business. For instance, 1.55 per cent of the accounts, those with annual purchases of $5,000 and over, furnished 34.96 per cent of the total sales volume. In contrast, 56.61 per cent of the accounts, those with annual purchases of less than $400, furnished only 10.23 per cent; while those with annual purchases of less than $100, 14.21 per cent of the total number, furnished only 0.66 per cent of the total sales volume.
   a) Of what value to management is a frequency distribution of accounts by size?
   b) Suggest a procedure for determining whether accounts which purchase in small amounts are profitable to a company.
   c) Why are manufacturers prone to accept unprofitable business?
   d) If it was determined that all accounts with less than $100 annual purchases were, in general, unprofitable, what criteria might be be used to ascertain whether particular accounts in this group group should be served in the future or dropped?
9. Explain carefully what is meant by control of sales operations on the "exception" principle.
10. What are the requisites of a satisfactory system of control of sales operations? Consider both general requisites and those which are

needed more specifically in relation to certain parts of the sales control task.

11. The assertion is frequently made that competition is not so active among business concerns as formerly. From our examination of sales policies, practices, and control methods what evidences do you see either to affirm or to deny the truth of this assertion?

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APPENDIX

SECTION 2 of the Clayton Act, relating to price discrimination, formerly read as follows:

SEC. 2. That it shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or indirectly to discriminate in price between different purchasers of commodities, which commodities are sold for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, where the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly in any line of commerce: *Provided*, That nothing herein contained shall prevent discrimination in price between purchasers of commodities on account of differences in the grade, quality, or quantity of the commodity sold, or that makes only due allowance for difference in the cost of selling or transportation, or discrimination in price in the same or different commodities made in good faith to meet competition; *And provided further*, That nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade.

AN ACT

To amend section 2 of the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October 15, 1914, as amended (U.S.C., title 15, sec. 13), and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 2 of the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October 15, 1914, as amended (U.S.C., title 15, sec. 13), is amended to read as follows:

SEC. 2. (a) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or indirectly, to discriminate in price between different purchasers of commodities of like grade and quality, where either or any of the purchases involved in such discrimination are in commerce, where such commodities are sold for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, and where the effect of such discrimination may be substantially to lessen competition or tend to create a monopoly in any line of commerce, or to injure, destroy, or

prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them: *Provided*, That nothing herein contained shall prevent differentials which make only due allowance for differences in the cost of manufacture, sale, or delivery resulting from the differing methods or quantities in which such commodities are to such purchasers sold or delivered: *Provided, however*, That the Federal Trade Commission may, after due investigation and hearing to all interested parties, fix and establish quantity limits, and revise the same as it finds necessary, as to particular commodities or classes of commodities, where it finds that available purchasers in greater quantities are so few as to render differentials on account thereof unjustly discriminatory or promotive of monopoly in any line of commerce; and the foregoing shall then not be construed to permit differentials based on differences in quantities greater than those so fixed and established: *And provided further*, That nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade: *And provided further*, That nothing herein contained shall prevent price changes from time to time where in response to changing conditions affecting the market for or the marketability of the goods concerned, such as but not limited to actual or imminent deterioration of perishable goods, obsolescence of seasonal goods, distress sales under court process, or sales in good faith in discontinuance of business in the goods concerned.

(b) Upon proof being made, at any hearing on a complaint under this section, that there has been discrimination in price or services or facilities furnished, the burden of rebutting the prima-facie case thus made by showing justification shall be upon the person charged with a violation of this section, and unless justification shall be affirmatively shown, the Commission is authorized to issue an order terminating the discrimination: *Provided, however*, That nothing herein contained shall prevent a seller rebutting the prima-facie case thus made by showing that his lower price or the furnishing of services or facilities to any purchaser or purchasers was made in good faith to meet an equally low price of a competitor, or the services or facilities furnished by a competitor.

(c) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to pay or grant, or to receive or accept, anything of value as a commission, brokerage, or other compensation, or any allowance or discount in lieu thereof, except for services rendered in connection with the sale or purchase of goods, wares, or merchandise, either to the other party to such transaction or to an agent, representative, or other intermediary therein where such intermediary is acting in fact for or in behalf, or is subject to the direct or indirect control, of any party to such transaction other than the person by whom such compensation is so granted or paid.

(d) That it shall be unlawful for any person engaged in commerce to pay or contract for the payment of anything of value to or for the benefit of a customer of such person in the course of such commerce as compensation or in consideration for any services or facilities furnished by

or through such customer in connection with the processing, handling, sale, or offering for sale of any products or commodities manufactured, sold, or offered for sale by such person, unless such payment or consideration is available on proportionally equal terms to all other customers competing in the distribution of such products or commodities.

(e) That it shall be unlawful for any person to discriminate in favor of one purchaser against another purchaser or purchasers of a commodity bought for resale, with or without processing, by contracting to furnish or furnishing, or by contributing to the furnishing of, any services or facilities connected with the processing, handling, sale or offering for sale of such commodity so purchased upon terms not accorded to all purchasers on proportionally equal terms.

(f) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, knowingly to induce or receive a discrimination in price which is prohibited by this section.

SEC. 2. That nothing herein contained shall affect rights of action arising, or litigation pending, or orders of the Federal Trade Commission issued and in effect or pending on review, based on section 2 of said Act of October 15, 1914, prior to the effective date of this amendatory Act: *Provided*, That where, prior to the effective date of this amendatory Act, the Federal Trade Commission has issued an order requiring any person to cease and desist from a violation of section 2 of said Act of October 15, 1914, and such order is pending on review or is in effect, either as issued or as affirmed or modified by a court of competent jurisdiction, and the Commission shall have reason to believe that such person has committed, used or carried on, since the effective date of this amendatory Act, or is committing, using or carrying on, any act, practice or method in violation of any of the provisions of said section 2 as amended by this Act, it may reopen such original proceeding and may issue and serve upon such person its complaint, supplementary to the original complaint, stating its charges in that respect. Thereupon the same proceeding shall be had upon such supplementary complaint as provided in section 11 of said Act of October 15, 1914. If upon such hearing the Commission shall be of the opinion that any act, practice, or method charged in said supplementary complaint has been committed, used, or carried on since the effective date of this amendatory Act, or is being committed, used or carried on, in violation of said section 2 as amended by this Act, it shall make a report in writing in which it shall state its findings as to the facts and shall issue and serve upon such person its order modifying or amending its original order to include any additional violations of law so found. Thereafter the provisions of section 11 of said Act of October 15, 1914, as to review and enforcement of orders of the Commission shall in all things apply to such modified or amended order. If upon review as provided in said section 11 the court shall set aside such modified or amended order, the original order shall not be affected thereby, but it shall be and remain in force and effect as fully and to the same extent as if such supplementary proceedings had not been taken.

SEC. 3. It shall be unlawful for any person engaged in commerce, in the course of such commerce, to be a party to, or assist in, any transac-

tion of sale, or contract to sell, which discriminates to his knowledge against competitors of the purchaser, in that, any discount, rebate, allowance, or advertising service charge is granted to the purchaser over and above any discount, rebate, allowance, or advertising service charge available at the time of such transaction to said competitors in respect of a sale of goods of like grade, quality, and quantity; to sell, or contract to sell, goods in any part of the United States at prices lower than those exacted by said person elsewhere in the United States for the purpose of destroying competition, or eliminating a competitor in such part of the United States; or, to sell, or contract to sell, goods at unreasonably low prices for the purpose of destroying competition or eliminating a competitor.

Any person violating any of the provisions of this section shall, upon conviction thereof, be fined not more than $5,000 or imprisoned not more than one year, or both.

SEC. 4. Nothing in this Act shall prevent a cooperative association from returning to its members, producers, or consumers the whole or any part of, the net earnings or surplus resulting from its trading operations, in proportion to their purchases or sales from, to, or through the association. Approved, June 19, 1936.

INDEX

A

Advertising
  allocation of, 190–92
  cost data on, 420
  media selection, bases for, 427–29
  through promotional aids; *see* Sales promotion
  testing effectiveness of, 429–33
    difficulties involved in, 429–31
Advertising department, relationship of, with sales department, 402–3
Attitude analysis, 623–24
Automobile Manufacturers Association, warranty of, 476–77

B

Basing point systems, 340–50; *see also* Pricing, delivered price systems
Baum, Roland L., 154
Bell, W. B., 35
Bernreuter Personality Inventory, 592
Bonus plans, 836–39; *see also* Compensation of salesmen
Branch managers, compensation of, 848–50
Brand names
  desirable characteristics of, 106–10
  generic use, danger of, 109, 130
  selection of, 106–10
Branding
  of assembly parts, 102
  objectives of, 95–99
    independence in pricing, 97–99
    market control, 96–97
  by product type, 100–101
  specific problems of, 99–106
  of textiles, 102–3
Brands
  consolidation of, 118–19
  coverage of, 112–19
    market coverage of, 117–18
    product coverage of, 114–17
      different products and product qualities, 112–14
      family type, advantages of, 112–14
      same product, same quality, many brands, 114–15
      single product, different qualities, 115–17
Brands—*Cont.*
  definition of, 93
  distributors'
    competition with, 120–22
    functions of, 122–23
    manufacture under, 103–6
    meeting competition of, 120–22
    price reductions through, 120
    reasons for, 119–20
  of finished products, 100–101
  national versus private, 95, 103–6
  significance of, to consumers, 100
  versus trade-marks, 93–94
  types of, 95
Break-even analysis, 280–82
Briggs Manufacturing Company, 50
Budgets and budgeting, sales expense, 439–51, 452
  administration or follow-up of, 448–51
    flexibility needed, 450
    inflexibility, danger of, 450–51
  budget period, length of, 441
  form, not substance, possibility of, 456
  functional expense classification for, 443
  for new products, 452
  objectives of, 438–40, 449–50
  planning versus operating, 441, 448–49
  procedural steps in determination of, 441–48
  review and revision of, 445–48
    factors considered in, 445–46
    reduction in estimates, why expected, 447
  sales potential basis for, 440–41
  of salesmen's expenses, 696–97, 810–11, 875–78
Burroughs Adding Machine Company, 255–59, 575–78

C

California Fruit Growers' Exchange, 25
Callman, Rudolph, 40
Cannon Mills, Inc., 117, 134
Carboloy Company, Inc., 686, 702–3
Cavalier Corporation, 701
Certification marks
  cancellation of, 131
  certification plan, United States Testing Company, Inc., use of, 66–68

Certification marks—*Cont.*
definition of, 94
warranty implications of, 474–75
Channels of distribution, selection of, 372–81
approaches to selection, 377–79
through basic analysis of selling task, 378–79
through market investigation, 378
through past experience, 377–78
distributors, control of, by manufacturers, 373–74
factors affecting decisions on, 375–77
how problem arises, 374–75
market coverage desired, effect of, 380–81
principal problems involved in, 372–73
selectivity in, 379–80
Coleman Company, 659
Compensation of salesmen
bonus plans, 836–39
bonus versus commission plans, 837
bonus funds, distribution of, 838–39
individual versus group bonuses, 838
true bonus, characteristics of, 836–37
combination plans, 840–45
commission and bonus, 843
drawing account and commission, 842–43
justification for, 840
point systems, 843–45
salary and bonus, 841–42
salary and commission, 840–41
salary, commission, and bonus, 842
commission plans, 829–36
advantages of, 832–33
commission rates, 829–32
adjustment of, 832
factors influencing rates, 829–31
prevalence in use of, 831–32
disadvantages of, 833–35
control difficulties encountered, 834
salesmen, disregard of company interest by, 834
earnings, limitations of, 835–36
administration of, 836
attitude toward, by companies, 836
extent of, 836
need for, 835
straight versus variable commission, 829
definition of, 815
desirable characteristics of, 822–25
through employee benefits, 850–51
frequent lack of participation in, 850
of General Mills, Inc., 852
need for, 851
prevalence of, 850–51
Compensation of salesmen—*Cont.*
through employee benefits—*Cont.*
Sales Manager's Creed, provision on, 851–52
expense and compensation, combination of, 847–48
justification of, 848
Sales Manager's Creed, provision on, 848
undesirability of, 847–48
managerial problems of, 820–22
changing conditions, complications induced by, 822
instability of productivity, effect of, 821
monetary versus nonmonetary, 815–16
plans in use, classification of, 825
adaptation to specific situations, 846–47
prevalence in use of, 826
policies regarding, 817–20
profit basis plans, 839–40
administrative difficulties encountered in, 840
illogical character of, 839–40
for supervisors and branch managers, 849–50
salary level, determination of, 816–20
labor market, extent of guidance by, 816–17
protection of salesmen by, 817
policies in regard to, 817–20
straight salary plan, 826–29
advantages of, 826–28
lack of incentive in, 828
salesmen's attitude toward, 827–28
supervisors and branch managers, compensation of, 848–50
use of more than one plan, reasons for, 845–46
variables affecting, 821–22
Competition
appraisal of, for pricing, 283–86
price versus product development, 29–30
Compton, Dr. Karl T., 55
Consumer panels and juries, for product testing, 75–78; *see also* Product testing
Corn Products Refining Co. v. *Federal Trade Commission*, 346–47
Cost analysis for pricing, 277–82
based on standard volume, 279–80
contribution to pricing, 280
Cowan, Donald R. G., 58, 75
Credits and collections, sales department relationship with, 408–10
Crowell-Collier Publishing Company, 216–17

Curtis Publishing Company, 192, 216
Customer relations, 407–8

D

Davis, James H., 762
Dean, Joel, 300–301
Design piracy, 40–41
  legality of, 40–41
  problem of, 40
Deveneau, Willard F., 142
Difficulty analysis, 622–23
Discounts, 329–40
  cash, 333
  to meet a competitor's price, 339–40
    Standard Oil Company v. *Federal Trade Commission*, 338, 339–40
  promotional allowances, 333
  quantity, 329–32, 334–39
    cost-savings defense of, 336–38
    cumulative versus noncumulative, 329–31
    legality of, 334–39
      Federal Trade Commission v. *Morton Salt Co.*, 338–39
    reasons for, 331–32
  trade, 332–33
Distribution, manufacturers' control of, 10–11
Distribution costs, of manufacturers, classification of, for rubber manufacturers, 443; *see also* Sales programs; Budgets and budgeting
Distributors
  brands, 119–23
  control of, by manufacturers, 373–74; *see also* Channels of distribution
  manufacturers' co-operation with, 507–24; *see also* Sales programs
    distributors' attitudes toward co-operation with manufacturers, 523–24
    legality of, 516–24
    service activities of, 491–92
Dow Chemical Company, The, 388–90
duPont (E. I.), de Nemours and Company, 26, 39, 49
Duty analysis; *see* Job analysis; Time analysis

E

Eiteman, Wilford J., 270, 281
Electrolux Corporation, 108
Elrick, Robert F., 74
Employee benefits, for salesmen; *see* Compensation of salesmen
Eppert, Ray R., 808–9, 859, 875, 881
Exclusive agencies, legal restrictions on, 517–21
Exclusive agencies—*Cont.*
  Pick Manufacturing Co. v. *General Motors Corporation*, 517–18
  Standard Fashion Co. v. *Magrane-Houston Co.*, 517
  United States v. *Standard Oil of California*, 518–20
Expense control (nontransportation)
  control plans, requisites of, 692–94
  effect on salesmen's morale, 692
  expense economy, rewards for, 701–2
  legitimate expenses, tests of, 693, 700–701
  limitations on expenses, 697–98
  methods in use, classification of, 694–704
    advances, reports, reimbursement, 695–98
    budget plan, 696–97, 810–11
    expense defrayal, by salesmen, 695
    flat expense allowance, 698–700
      prior investigation needed, 699–700
  possibilities of, 691–92
  report forms, 701–4
    of Carboloy Company, Inc., 702–3
    of Cavalier Corporation, 701
Export sales department, work of, 399–400

F

Federal Trade Commission
  attitude of
    toward sales contests, 723–24
    toward seals of approval, 473–75
  distribution cost studies of, 420
Federal Trade Commission v. *Cement Institute et al.*, 344–45
Federal Trade Commission v. *Morton Salt Co.*, 338–39
Federal Trade Commission v. *A. E. Staley Mfg. Co.*, 346–47, 349–50
Ficken, F. R., Jr., 763
Food, Drug, and Cosmetic Act, 149–51, 159, 165–68, 174
  difficulties of compliance with, 149–50
  labeling provisions of, 174
  notices of judgment by, 167–68
  principal provisions of, 149–50
Forecasting
  approaches to, 200–202, 209
  of business conditions, 208–12
    econometric approach to, 210
    lead-lag approach to, 209–10
    sound judgment approach to, 210–12
  by individual unit procedure, 202–8
    appraisal of method, 207–8
    for consumers' goods, 206
    identification of uses and users, 198–200

Forecasting—*Cont.*
by individual unit procedure—*Cont.*
for producers' goods, 203–6
steps involved in, 206
by over-all procedure, 208–13
steps involved in, 208
Fort Howard Paper Co. v. *Federal Trade Commission*, 347–48
Free deals and allowances, 434–36
dimensions of, 435
objectives of, 435
testing effectiveness of, 435–36

G

General Foods Corporation, 38, 39, 75, 146–48, 625, 771, 795–800
General Mills, Inc., 49, 56–57, 224–25, 852
General Motors Corporation, 69, 294–96, 406
Good Housekeeping, 473–75
Goodrich Company, B. F., 22, 37
Gulf Oil Company, 778–79

H

Habit formation, 605–8
features of habits, 605
Hearst Magazines, Inc., *Good Housekeeping*, 473–75
product testing by, 473–74
warranty of, 474
Heinz Company, H. J., 603
Heywood-Wakefield Company, 178
Holman, Eugene, 369

I

Index methods
classification of, 214
multiple factor, 239–53
arbitrary factors or percentage average method, 240–46
interpretation and use of, 250–52
multiple correlation, use of, in, 246–50
single factor, 214–38
application of, 236–38
by types; *see* Indexes used in market analysis
Indexes used in market analysis, 214–46
consumer expenditure data, 225–28
generalized type, 244–46
advantages and weaknesses of, 246
individual product purchases, 225
magazine circulation, 215–18
objective factors data, 234–36
product-in-use data, 231–34
corollary product, 233–34
same product, 231–33
Indexes used in market analysis—*Cont.*
sales
census data, 218–21
company, 214–15
noncompeting products, 215
total industry, by individual products, 221–25
of *Sales Management*, 244–46
Industrial Surveys Company, Inc., 225
Invention, motivation for, 34–35
Inventors
manufacturers' relations with, 38–39
as source of product ideas, 37–39

J

Job analysis, 543–47; *see also* Time analysis
illustrations of, 545–47
necessity for, 543–45
responsibility for, 544–45
steps in, 544–45

K

Kroger Co., The, 114, 134

L

Labels and labeling
advantages of, if more effective, 175–76
definition of, 159
government standards for, 172–73
grade versus descriptive, 171–73
informative, outline for, 170
informative versus descriptive, 162
manufacturers' attitude toward, 162–63, 172–73
problems of, 163–75
compliance with legislation, 165–68
information selection for, 165, 168–71
inserts, use of, 174–75
nomenclature and presentation of, 171–75
product evaluation for, 164
recent emphasis on, 160
Laboratories, commercial, for product testing, 63, 65, 69; *see also* Product testing, technical
Lanham Act
abandonment of marks under, 130
advantages of, 125–27
assignment under, 129
cancellation under, 127, 130–31
concurrent registration, possibilities of, 128–29
improvement through, 131–32
incontestability under, 127–28
registrable marks under, 124–25
principal register, 124
restrictions on registration, 124–25
supplemental register, 124

Lanham Act—*Cont.*
registration procedure, outlined, 125
related companies, use of marks by, 129
Leasing, as pricing device, 325–29
buyers' point of view toward, 326–27
conditions which favor, 327
manufacturers' point of view toward, 326
rentals, 327–29
Libbey-Owens-Ford Glass Company, 800–805, 813, 853–54
Life Insurance Sales Research Bureau (now Life Insurance Agency Management Association), 580–82

M

Management of sales personnel
as affected by unionization, 534–35
contracts with salesmen, 536–38
content of, 537
desirability of, 537–38
definition of, 527
discontent with, reasons for, 534–35
executives' responsibilities to salesmen, 532–33
criticism of executives' attitude, bases of, 533
extent of, 532–33
extension of, to distributors, 527–28
improvement in, 538
managerial function, importance of, 530–32
customer relations aspect, 531
fixed-cost aspect, 531–32
personnel management, specialized area of, 529–30
Sales Manager's Creed, provisions of, 535–36
Market analysis, quantitative
for different types of product, 182–83
specific objectives of, 183–94
versus qualitative, 181
Market development
intensive versus extensive, 736
order of, 184–87
Market potentials
definition of, 196
determination of; *see* Forecasting
Market testing of products, preliminary, 78–82
illustration of, New England Confectionery Company, 79–80
of single products, 79–80
of styles and designs, 80–81
test lines, their use, 81–82
test markets, choice of, 79
Marketing policies, influence on prices, 287–89
Mead Johnson & Company, 157
Merchandising function, definition and discussion of, 18–19
Miller-Tydings Act, 98, 355–58
Monroe, John S., 224–25
Montgomery Ward & Co., Inc., 472
Multiple correlation, application of method, 247–50

N

Nash-Kelvinator Corporation, 46
National Consumer-Retailer Council, Inc., 160–61, 170–71
National Dairy Products, Inc., 55, 90
National Resources Planning Board, 25, 27, 32, 38
National Sales Executives, Sales Manager's Creed of, 535–36
New England Confectionery Company, 79–80
Nickerson, Clarence B., 278
Nielsen Company, A. C., 222–24

O

Organization
basic problems of, 365–71
co-ordination, 367–68
delegation of responsibility and authority, 366–67
division of responsibility and authority, 365–66
morale, development of, 371
span of supervision and control, 368–69
stability and flexibility, 369–71
departmental interrelationships, 401–10
intra- versus interdepartmental, 401–2
sales
and advertising, 402–3
and credit and collections, 408–10
and personnel, 410
and production, 404–5
and public relations, 405–8
and service, 403–4
through distributors; *see* Channels of distribution
nature of, 363–65
sales organization, structure of, 383–94
bases of appraisal, 410–13
combined
customer and functional, 387–88
customer, product, functional, 389–91
product and functional, 384–87, 388–93
departmentalization, classification by type, 384
Dow Chemical Company, The, 388–90

Organization—*Cont.*
sales organization, structure of—*Cont.*
functional, 384
reasons for variation in, 371–72
regional, 388
staff executives, responsibility of, 382–83, 386–87
subsidiaries and field offices, departmentalization of, 393–94
type of customer, 387–88
structure of, for business concerns, 381–83
functional versus line, line and staff, 381–82
growth of, 381–82

P

Packaging
of automobile oils, 136–37
basic objectives in, 136–38
changes (repackaging), 141–56
objectives, 141, 143–51
artistic appeal, 143–44
compliance with legislation, 149–51
cost reduction, 147–49
greater family resemblance, 145–47
market extension, 147
utilitarian appeal, 144–45
complexity of, 138–41
contribution of specialists, 154–55
of designers, 154–55
of material suppliers, 154
of fresh meats, 138–40
a multivariable problem, 140–41
organization and procedures, 152–55
committees, 153–54
company organization, 152–53
procedural rules, 153–54
preliminary analysis, prior to, 151–52
technical problems of, 140–41
timing of, 141–43
Personnel, sales department relationship with, 410
Philco Corporation, 723
Pick Manufacturing Co. v. *General Motors Corporation*, 517–18
Planning function, nature of, 4–5
Policies, formulation of, 861–62
Polk & Co., R. L., 221
Price maintenance, 355–58
arguments for, 357
attitude toward
by Federal Trade Commission, 356–58
manufacturers', 356–57
effect of, on manufacturers, 356
Schwegmann Brothers et al. v. *Calvert Distillers Corporation*, 358–59 n.
Prices
administration of, 317–61
negotiated
approach to, 324–25
versus established, 322–25
rigidity of, 98
variations of
general objectives, 317–20
short-range means, 350–52
Pricing
approach
from competitors' prices, an illustration, 291–93
from cost, an illustration, 293–96
arrangements, 352–58
notification of price changes, 352–53
price maintenance, 355–58; *see also* Price maintenance
protection against price reductions, 353–55
cost and volume relationships, 279–82
delivered price systems, 340–50
classification of, 340–42
legality of, 343–50
Corn Products Refining Co. v. *Federal Trade Commission*, 346–47
Federal Trade Commission v. *Cement Institute et al.*, 344–45
Federal Trade Commission v. *A. E. Staley Mfg. Co.*, 346–47
Fort Howard Paper Co. v. *Federal Trade Commission*, 347–48
Triangle Conduit & Cable Co. et al. v. *Federal Trade Commission*, 344, 345–46
reasons for, 342–43
discounts, 329–40; *see also* Discounts
effect of branding on, 197–99
environment of, 271–72
factors influencing, 372–90
competition, 283–87
cost factors, 277–82
customary prices, 276–77
elasticity of demand, 274–75
investment return, 282–83
market factors, 273–77
marketing policies, 287–89
product utility, 273–74
public policy, 289–90, 407
response to income level, 275–76
independence in, 267–68
through leasing, 325–29; *see also* Leasing
of new products, 297–304
alternatives in, 302
competitive uncertainty, relating to, 298–99
policies for, 301–4
steps in, 299–301

Pricing—*Cont.*
objectives in, 270–71
problems, classification of, 272–73
product lines, 304–11
price interrelationships, among products, 304–8
price variations, single product, 308–9
replacement parts, 311–13
responsibility for, 269
Product development; *see also* Product lines; Product planning
extent of
in recent years, 25–27
reliance upon, 29–30
forms of, 23–25
development versus improvement, 24–25
new uses or applications, 25
general reasons for, 27–30
competitive position, instability of, 29–30
preferences and purchasing power, instability of, 27–29
procedure in, 41–42
sources of product ideas, 33–40
home office personnel, 36–37
inventors, 37–39
the market, 35–36
other companies, including competitors, 39–40
versus price competition, 29–30
social pressures, 33–34
specific incentives for, 30–33
Product ideas, sources of, 33–40; *see also* Product development
Product introduction, on market
restraint of trade, 53–54
timing of, 52–54
withholding of, reasons for, 52–53
Product lines, constitution of, 42–51; *see also* Product development
absence of policy toward, 42–43
expansion of, 47–51
alternatives to, 29–30
limitations on, 50–51
reasons for, 47–50
desire for a complete line, 48–49
diversification, security attained through, 49–50
maximum utilization of assets, 47–48
similarity of, manufacturing and marketing requirements, 51
simplification of, 45–46
variety in, 43–47
demand for, 43–44
determining the extent of, 43–47
optimum number of, 46–47
Product lines, constitution of—*Cont.*
variety in—*Cont.*
trading-up versus trading-down, 44–45
Product planning; *see also* Product development; Product lines
importance of, 17
merchandising function, 18–19
organization for, 23
responsibility for, 19–23
within a concern, 23
of consumers, 20
of distributors, 20–21
of industrial buyers, 21–22
of inventors, 22
of manufacturers, 22–23
Product testing
by consumers, 69–87
a continuous process, 69, 82
in homes and offices, 73–74
in the market; *see* Market testing
nature of, 69–70
post-testing, 82–87
experimental procedures in, 83–84
through interviews, 84–85
through mail questionnaires, 85–87
pre-testing, procedures used in, 72–78
by company personnel, 72–73
by company visitors, 74–75
by consumer panels and juries, 75–78
by General Foods Corporation, 75 n.
control and supervision of, 78
justification, question of, 77–78
selection of testers, 75–77
problems of, 70–72
extent used by management, 87–89
significance of, 60–62
technical versus consumer, 58
technical testing, 62–69
analysis versus performance, 62–65
by commercial testing laboratories, 63, 65–69
advantages of, 66
certification by, 66–69
plan of United States Testing Company, Inc., 66–68
equipment developed by, 63
types of, 65
of competitors' products, 62
performance testing, 62–68
alternatives to, 65
difficulties of, 63–65
through simulated use conditions, 63–64
types of, 58–60

Product uses and users, identification of, 198–99
Production
  capacity, 187–88
    expansion of, 187–88
    location of, 188
  concentration of, 9–10
Production department, relationship of, with sales department, 404–5
Profit sharing through bonus, 838
Promotional services and allowances; *see* Sales promotion
Psychological tests; *see* Selection of sales personnel
Psychology, contributions of, 604–10
Public relations, sales department relationship with, 405–8

Q

Questionnaires, mail, 85–87
  advantages and disadvantages in use of, 86–87
  construction of, 87
  information elicited through, for product testing, 85–86
  preliminary testing of, 87

R

Rating forms for salesmen, 673–74
Recruitment of sales personnel, sources of, 555–62, 668–69; *see also* Selection of sales personnel
  advertising, 560
  company, 556–668
  educational institutions, 558–60
  extent used, 559
  other companies, 557–58
  suggestions, company personnel, 561
Reilley, Ewing W., 411
Reports and reporting systems (nonexpense)
  attitude toward, by salesmen, 687–89
  classification of, 681, 694
  criteria for judging, 687–91
  definition of, 681
  by distributors, 511
  expense; *see* Expense control methods
  objectives of, 682–84
    liaison, 682–84
    planning, 683–84
  report forms, types of, 685–88
    on calls, 685, 686
    on customer status, 688
    on itinerary, 686
  salesmen's compliance with, 689
  variation in use and need of, 681–82
Robinson-Patman Act, 334–40, 885 ff.
  cost-savings defense under, 336–38
Robinson-Patman Act—*Cont.*
  principal provisions of, 335–36
  promotional services and allowances under, 521–23
  recent interpretations of, 338–40

S

Sales campaigns; *see* Sales programs
Sales department
  advertising department, relationship of, with, 402–3
  bases of appraisal, 410–13
  functional breakdown of tasks, 397–401
  production department, relationship of, with, 404–5
Sales data, sources of, 221–25
Sales executives
  apportionment of time by, 859–60
  control of sales operations by, 857–82; *see also* Sales operations, control of
  decisions on sales methods, how made, 423–24, 454–55
  direction and leadership of, 507
  expense budgets, work on, 445–48
  field work of, 511
  personal requisites, needed by, 882
Sales expense; *see* Budgeting
Sales franchise, value of, 510–11
Sales management; *see also* Management of sales personnel
  definition of, 2
  delimitations of, 1–4
    for teaching purposes, 3–4
  functions performed in, 4–8
    execution, 7–8
      assignment and review, 7
      co-ordination, 7–8
      stimulation, 8
    planning, 5–7
      alternative means and expenditures, selection of, 5–6
      evaluation of means used, 6–7
    planning versus execution, 5
  growth of, reasons for, 9–11
    concentration of production, increase in, 9–10
    control of distribution by manufacturers, 10–11
    distinctive, nonstaple products, increase in, 10
  versus marketing, 2
  restrictions on, 11–14
    government, regulation of, 13–14
    policies and practices of industry, 13
    previous policies and commitments, 12–13
    public interest and, 14
  work classification of, 8

Sales Management, buying power index of, use of, 244–46, 733
Sales Manager's Creed, 535–36
Sales methods; *see* Sales programs
Sales operations, control of, 857–82
control systems, requisites of, 878–82
analysis plus action, need of, 878–79
effective liaison, need of, 879
by type of activity, 879–82
facts needed for, 871–78
from expenditure analysis, 874–78
budget-expenditure comparisons, 874–75
sales-expenditure comparisons, 875–78
points of difficulty, isolation of, 878
from external sources, 871
from sales analysis, 871–74
types of analysis and reports, 872–74
for household durables, office equipment, 873–74
for photographic supplies, 872–73
summarization, types of data needed, 874
sources of, 871
means of control, 860–71
expense controls, 865–71
through budgeting, 865–66
through distribution cost accounting, 866–71
cost analysis data, use of, 870–71
difficulties encountered in, 868–70
bases of allocation, determination of, 869–70
costs, functional breakdown of, 868–69
financial accounting, relationship with, 868
objectives of, 866–68
possible improvement in, 866
margin controls, 863–65
margins and profits, estimates of, 863–64
product "mix," control through, 864–65
policies, control through, 861–62
definition of, 861
deviations from, 861
policy formulation, nature of, 861–62
standards or goals, control through, 860–61
volume controls, 862–63
future demand, estimates of, 862
sales potentials, estimates of, 863
Sales operations, control of—*Cont.*
means of control—*Cont.*
volume controls—*Cont.*
sales quotas, determination and assignment of, 863
objectives of, 857–58
problems of, 858–60
Sales organization; *see* Organization
Sales personnel; *see* Management of sales personnel; Selection of sales personnel
Sales potentials
breakdown, bases for, 214–53; *see also* Indexes
definition of, 196
estimates of, 213
Sales presentations, memorized or "canned," 637–38
Sales programs
administration of, 498–525
co-ordinative process, essentials of, 505–6
program scheduling, 499–504
master schedule, need of, 504
problems encountered, nature of, 503–4
by the Studebaker Corporation, 499–503
responsibility for, 504–5
co-operation with distributive outlets, 507–24
exclusive agencies, legal restrictions on, 517–21
Pick Manufacturing Co. v. *General Motors Corp.*, 517–18
Standard Fashion Co. v. *Magrane-Houston Co.*, 517
United States v. *Standard Oil of California*, 518–20
forms of, 509–10
means for securing, 510–16
promotional services and allowances, legal restrictions on, 521–23
restrictions imposed by distributors' attitudes, 523–24
lack of uniformity in, 419
methods used in, selection and testing of, 421–38
advertising, 427–33; *see also* Advertising
classification of, 422
dealer helps, 436–37
free deals, premiums, etc., 434–36
how decisions are made, 423–24, 454–55
market development, new products, 452–54
personal solicitation, 424–26

Sales programs—*Cont.*
methods used in—*Cont.*
shows and exhibitions, 434
warranty and service, 434
planning of, 417–59
for new products, 451–54
problems involved in, 418–19
ready-made solutions, lack of, 419–21
Sales promotion
means of assuring use, by distributors, 514–16
promotional aids, 514–16
testing of, 514–15
services and allowances, legality of, 521–23
Sales quotas; *see also* Salesmen's performance, evaluation of
definition of, 196
determination of, 253–62
by Burroughs Adding Machine Co., 255–59
by Westinghouse Electric Corporation, 259–63
an objective of quantitative analysis, 193
Sales tasks, functional breakdown of, 397–401
Sales territories, 729–50
determination of, 731–43
boundaries of, 739–43
intracity units, census tracts, 741
political versus economic, 739–40
state, county, city units, use of, 740
trading area units, 741–43
advantages of, 743
urbanized area, standard metropolitan area units, 740–41 n.
establishment of basic territories, initial step in, 733–35
modification of, affecting factors, 735–38
use of market potential data, 733–35
problems involved in, nature of, 731–35
variation in problems of, among companies, 732
nature of, 729–30, 749–50
revision of, 743–49
managerial problems of, 744–45
procedure for, 745–49
complete revision, illustration of, 746–48
revision at peripheries, illustration of, 749
reasons for, 743–44
salesmen, effect on, 745
territorial assignments, objectives of, 730–31
Salesmen
assignment and control of through market analysis, 188–90
assignments of work to, 753–59; *see also* Salesmen, work assignments to
coaching on the job, 671
compensation of; *see* Compensation of salesmen
complaints of, handling of, by management, 677–78
contracts, 536–38
conventions and conferences for, 708–14
determination of territories for, 729–50
discontent, reasons for, 534–35
distribution and routing of, 189–90
employee benefits for, 850–52
executives' responsibility toward, 532–33
expenses, control of, 691–704
missionary salesmen, their work, 513–14
performance, evaluation of, 781–812; *see also* Salesmen's performance, evaluation of
rating performance of, 673–74
routing and scheduling of, 765–68
extent of, by management, 765
favorable results, if effective, 767–68
importance of, 764–65
need for, by management, 765–67
variance factors, among companies, 766
problems involved in, nature of, 747–48, 767
selection of, 540–616; *see also* Selection of sales personnel
stimulation of, 707–26; *see also* Stimulation of salesmen
supervision of, 661–80; *see also* Supervision of salesmen
transportation of, 768–77; *see also* Transportation of salesmen
unionization of, 534–35
work assignments to, 753–64
as affected by time and job analyses, 758–64; *see also* Time analysis
by customers, size and type of, 757–58
customer selection, importance of, 758
by product types, 754–57
emergence of problem, reasons for, 754
factors affecting, 754–56
costs involved, 755–56
homogeneity of line, extent of, 754–55

Salesmen—*Cont.*
work assignments—*Cont.*
by product types—*Cont.*
factors affecting—*Cont.*
potential buyers, similarity of, 755–56
sales tasks, similarity of, 756
territories worked, nature of, 757
by territories; *see* Sales territories
by types of functional activity, 753–54
Salesmen's performance, evaluation of, 781–812
basic methods of, 787–805
expense budgets, 810–11
performance related to standards, 788–90
analysis possibilities of, 790
comparability, importance of, 789–90
orders related to calls, 787
sales quotas, 805–10
administration of, 809–10
revision of, 809
salesmen, acceptability to, 809–10
historical perspective on, 806–7
objectives of, 808–9
standard of performance, use as, 806
use of, prevalence of, 807
variations in, 807–8
by time interval covered, 808
by type, 807–8
subjective evaluation, by management, 794–805
bias, problem of, 794–95
plan used
General Foods Sales Division, 795–800
Libby-Owens-Ford Glass Company, 800–805
rating forms, reasons for use of, 795
illustrations of, 796–99, 802–3
reasons for, 794
two variables, ratios between, 790–94
customers—potential buyers, 791
orders—by account size brackets, 793–94
sales—expense, 791–92
sales—gross profit, 792
sales—high gross profit sales, 792–93
comparability, principle of, 782–83, 787–88
attainment of comparability, means for, 787–88
sales quotas, 787–88
Salesmen's performance—*Cont.*
comparability, principle of—*Cont.*
attainment of comparability—*Cont.*
territories
classification of, 787
equalization of, 787
difficulties encountered in, 781–83
factors affecting, 783–88
aid given by company, variation in, 785–86
competition, strength of, 784–85
potentiality of territories, 783–84
territories, physical differences in, 784
objectives of, 780–81
sales performance versus salesmen's performance, 786–87
time and effort needed for, 812
Scott Paper Company, 545–46
Seals of approval; *see* Certification marks
Selection of sales personnel; *see also* Recruitment of sales personnel
applicants' characteristics, determination of, 564–95
application blank or personal history record, 574–85
of Burroughs Adding Machine Company, 575–78
justification of relationships, 584–85
and predictive value
of items, determination of, 579–80
of total scores, 582, 583–84
selection of items for, 577–80
weighting and scoring of items, 580–85
by Life Insurance Sales Research Bureau, 580–82
by manufacturer of maintenance materials, 582–84
application for interview blank, 565–68
interviews, 568–74
characteristics determinable through, 568
conduct of, 573–74
interviewers, qualifications of, 574
multiple versus single, 572–73
objectives of, 568–69
planned outlines for, 569–71
of Tremco Manufacturing Company, 569–71
rating charts for, 572
of Tremco Manufacturing Company, 572
means used, list of, 565
physical examinations, 587

Selection of sales personnel—*Cont.*
applicants' characteristics—*Cont.*
psychological testing, use of, 587–94
attitude toward, 588–89
classification of tests, 589–90
for manual skills versus selling activities, 587–89
multiple characteristic tests, 592–95
Bernreuter Personality Inventory, 592
Humm-Wadsworth Temperament Scale, 592
Strong Vocational Interest Blank, 592–94
reasons for use of, 589
significance of test results, 590–94
single characteristic tests, 590–91
references, 585–87
personal recommendations, 586–87
previous employers' recommendations, 587
probable bias of, 585–86
variation, extent of means used, 564
characteristics needed, determination of, 547–54
characteristics of successful salesmen, 552–55
determination of, 552–53
need for performance "yardstick," 552–53
use of correlation, 553
classification of, 549
complexity of task, 547–49
education, based on, 551–52
experience, based on, 550–51
negative approach to, 554–55
of field supervisors, 668–70
improvements in, 595–96
job analysis, 543–47
illustrations of, 545–47
necessity for, 543–45
responsibility for, 544–45
steps in, 544–45
nature of the problem, 540, 543, 554
procedural questions in, 594
responsibility for, 541–43
field offices versus home office, 541–42
small versus large concerns, 541
untrained versus experienced salesmen, selection of, 550–51
Service
charging for, 484–89
administration of charges, 488–89
arrangements with engineering concerns, 489
criteria for judgment on, 486–87
effect on sales volume, 485
limitations on "free" service, 488–89
policies followed, 485–86
Service—*Cont.*
distributive outlets, control of, in reference to, 491–92
location of, 490–91
marks, 94
nature of, 479–82
need for assurance through, 460–62
objectives of, 482–83
organization and administration of, 489–93
in the field, 489–92
in the home office, 492–93
personnel; *see* Management of sales personnel
policy, suggestions for, 493–95
adequacy versus cost, 493
problems, affecting factors, 483–84
nature of market, 484
type of buyer, 483–84
type of products, 483
promotional versus protective aspects of, 482–83
sales department, relationship with, 403–4
types of, 481–82
Sevin, Charles H., 765
Simplification of line, 45–46; *see also* Product lines
cost-savings advantages, 46
need for, 45–46
Skillings, J. K., 663
Standard Fashion Co. v. *Magrane-Houston Co.*, 517
Standard Oil Company v. *Federal Trade Commission*, 338, 339–40
Stimulation of salesmen
through compensation, 725
through conventions and conferences, 708–14
national versus regional, 708–9
planning of, 714
procedures used in, 712–14
adaptation to group type, need for, 712–13
ballyhoo characteristics, need of, 713
programs, content of, 709–12
need of, 707
through prospects of promotion, 725–26
through sales contests, 714–24
case materials, concerned with, 720 n.
criticism of, 722–23
for distributors' salesmen, 723–24
legality of, 723–24
objections to, 723–24
equality of opportunity in, 720–22
extent of use, 715
judging, criteria for, 719–22
objectives of, 715–17

Stimulation of salesmen—*Cont.*
through sales contests—*Cont.*
structure, variables in, 717–19
awards, type of, 718–19
participation in, 717–18
scoring, bases of, 718
types of, 715
through sales quotas, incentive type, 724–25
supervision, interrelationships with, 707–8
Strong Vocational Interest Test, 592–94
Studebaker Corporation, 499–503, 525
Supervision of salesmen
basic objectives of 661–62
complaints, handling of, 677–78
definition of, 663
essentials of, 676–78
an extension of training, 661
field supervision
amount required, 666–67
methods of, 671–76
coaching on the job, 671
correspondence, house organs, 675–76
group meetings, 674–75
joint sales work, 671–72
observation in, procedures used, 672–73
rating forms, objectives in use of, 673–74
rating of performance, 673–74
reasons for, 663–65
responsibility for, 667–68
field supervisors
compensation of, 848–50
qualifications of, 669–70
selection and training of, 668–70, 670–71
sources of, 668–69
company versus noncompany, 668
specific tasks of, 665–66
training of, 670–71
nature of the problem, 662–63
Swift & Company, 74–75

T

Territories; *see* Sales territories
Time analysis, 759–64; *see also* Job analysis
development of standards from, 762–63
often neglected, reasons for, 759
possibilities in, 758–59
possible improvements through, 762–64
preparation of, 621–22
problems involved in, 759–64
assignment of responsibility for, 759–60
possibilities of bias, 761
Time analysis—*Cont.*
problems involved in—*Cont.*
sampling, 760
Trade-marks
versus brand names, 110–11
definition of, 93–94
protection of, 123–32; *see also* Lanham Act
problems in, 123
selection of, 110–12
psychologists' contribution to, 111 n.
and slogans, 112
Trading areas, use of, for determination of sales territories, 741–43
Trading-up versus trading-down, 44–45
Training
contributions of psychology, 604–10
aids to learning, a knowledge of, 608–10
habit formation, a knowledge of, 605–8
interest and motivation, importance of, 605
of distributors' salesmen, 512–13
of field supervisors, 670–71
location of, 645–46
nature of problems involved, 604–10
need of, 600–601
objectives of, 601–2
organization for, 610–15
location in organization, 611–12
qualifications of trainers, 613–14
questions of staff, 613–14
program content, 625–44
classification of, 632
program scheduling, 642–43, 626–31
research needed for, 620–24
responsibility for, 610–11, 612–13, 619
salesmanship, 636–40
classroom training in, 636–39
field training in, 639–41
selection of methods, 644–56
specific objectives, 624–25
steps in program development, 617–18
techniques of, 648–56
correspondence courses, 651–52
evaluation of results, 656–57
examinations, reports, etc., 655–56
group conferences, 649–51
lectures, 648–49
manuals, 651–52
visual aids, 653–55
timing of, 646–48
variation among companies in, 602–4
Transportation of salesmen, 768–77
automotive, advantages of, 768
company ownership of automobiles, administration of, 772–73

Transportation of salesmen—*Cont.*
company ownership of automobiles—*Cont.*
use of automobiles, personal purpose, control of, 772–73
company versus salesmen, ownership of automobiles, 770–72
affecting factors, summary of, 771–72
General Foods Sales Division, experience of, 771
plans for control of, 769
prevalence in use of, 770
salesmen ownership of automobiles, administration of, 773–77
costs involved, classification of, 773–74
territorial differences, recognition of, 776–77
plans in use, 774–76
combination plan, analysis of, 775–76
flat allowance, analysis of, 774
graduated plan, analysis of, 775
per-mile allowance, analysis of, 774–75
problems involved, nature of, 772–74
Tremco Manufacturing Company, 570–72
Triangle Conduit & Cable Co. et al. v. *Federal Trade Commission*, 344, 345–46

U

Uniform Sales Act, 464–65
Unionization of salesmen, 534–35
difficulties involved in, 534
progress in, 534
United States v. *Standard Oil of California*, 518–20
United States Department of Agriculture, continuous inspection service by, 172
United States Testing Company, Inc., 66, 67, 468

V

Vanderblue, Homer B., 296
Visual aids, use of, for training, 653–55

W

Warranties
of assembly parts, 477 n.
competition in, 470–71, 478–79
definition of, 464
express, 467–69
circumstances under which given, 467
conditions warrantied under, 467–69
definition of, 464
implied, 464–67
conditions where no, 465–67
definition of, 464
disclaimers of, 466–67, 476
versus express, definitions of, 464
under Uniform Sales Act, 465
manufacturers' attitude toward, 462
need for assurance through, 460–62
promotional, 470–75
costs of, 470–71
certification marks as, 473–75
disadvantages of, 471–72
of *Good Housekeeping*, 474
of Montgomery Ward & Co., Inc., 472
versus protective aspects of, 469–70
reasons for use, 470–71
as sales arguments, 470–71
versus testimonials, 472–73
protective, 475–78
of Automobile Manufacturers Association, 476–77
avoidance of competition through, 478
definition of, 475
purposes of, 475
standard type of trade associations, 476–77
Westinghouse Electric Corporation, 259–63

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